

USAID Trade Project

Gap Analysis and Implementation Roadmap for the Directorate General of Post Clearance Audit Pakistan Customs

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Executive Summary

The Directorate General of Post Clearance Audit (DG PCA) within the Federal Board of Revenue (FBR)/Pakistan Customs has been operational since late 2008. Since its inception, the DG PCA has had some success in identifying instances of non-compliance with customs and allied legislation, but internal and external challenges severely restrict the unit's ability to perform its functions efficiently and effectively.

Many key areas relating to PCA were found to be in need of substantial modernization. The current operation does not provide senior management with the necessary assurance that Customs and associated revenues will be protected or legislative breaches will be detected. In addition, it does not provide the quality assurance required for FBR Customs to successfully implement compliance management necessary to support the implementation of risk management principles in the new information technology (IT) system for cargo clearance. A competent and results-oriented PCA operation is necessary to facilitate trade while maintaining an appropriate level of control.

This analysis contains a total of nineteen (19) key recommendations for consideration and implementation by the FBR/Pakistan Customs Directorate General of PCA. These recommendations address the following areas:

- Update the current Post Clearance Audit Manual
- Introduce Strategic Planning and Reporting documents for the Directorate as a whole and for regionally based audit units
- Improve the policy and procedures in use by the PCA to reflect the strength of existing law
- Increase human resource capacity with targeted recruitment of specialists and commitment to maintaining staffing levels according to approved number of positions
- Customs technical training requirements such as the Harmonized Commodity Description and Coding System (HS) Tariff, World Trade Organization (WTO) Valuation and Rules of Origin
- Training in systems-based audit and computer-based audit
- Increase cooperation and information sharing between Customs Directorates, Collectorates, the FBR and other government agencies
- Increase use of Risk Management and implementation of Compliance Management
- Prioritize compliance among the large volume traders to protect the majority of trade revenue

The recommendations included in this report are extensive and full implementation will require time; however, the following two recommendations should be prioritized for significant and expedient improvement in the functionality of PCA:

1. Staff the PCA with qualified auditors to ensure that complex systems and computer-based audits can be conducted (this is not the current practice)
2. Implement changes to the appeal process to reduce the number of cases deadlocked in the adjudication system, and the amount of payments outstanding

The Assessment Team notes that the changes recommended in this report may require political and professional adjustments, but timely intervention from FBR/Pakistan Customs leadership is required in order to improve the current functionality of PCA.

1. Introduction

Deloitte Consulting LLP is under contract with USAID to implement the USAID Pakistan Trade Project (Project). The goal of the Project is to improve the trade environment in Pakistan, thereby resulting in expanded exports, more competitive enterprises, and increased employment opportunities.

At the request of the FBR, and subsequent concurrence by USAID, the Trade Project's work plan Activity 2.3.3 "Post Clearance Audit (PCA)" requires a gap analysis of the FBR's PCA, and the development of a roadmap to support recommended reforms to PCA.

This report provides an assessment of the current operations of the Government of Pakistan's (GoP) Customs PCA branch. It provides recommendations to assist the Directorate General of PCA to improve compliance among the trading community, a prerequisite for additional system improvements such as Authorised Economic Operators (AEO), which will further facilitate Pakistan's cross-border trade capabilities.

The assessment and recommendations are based on internationally accepted best practice Customs principles, as well as internationally accepted audit principles.

2. Background

Customs organizations worldwide are working to improve trade facilitation while maintaining strong border integrity and minimizing potential revenue loss. This requires a departure from the "gatekeeper" approach, which involves high levels of physical, time consuming interventions to force compliance with customs legislation without necessarily identifying compliant and non-compliant parties. The increased volume and speed of international trade and modes of transport led to a risk-based approach to implement compliance management. Pre-arrival targeting and on-arrival documentary control measures reduced the frequency of physical examinations, but still resulted in backlogs of cargo awaiting clearance. Subsequently, the concept of post transaction audits evolved into what is now known as Post Clearance Audit.

A professional Post Clearance Audit unit forms part of the best practice approach to implementing a compliance philosophy based on World Customs Organization (WCO) and WTO principles. The PCA function is the last form of control within the Customs control process. Its purpose is to safeguard revenue in an environment where the majority of consignments are cleared without any customs intervention.

The PCA function performs a variety of audits after customs clearance, both within the customs environment and at traders' premises to validate company systems, internal controls, processes and procedures to ensure compliance with customs and associated legislation. In a best practice environment the PCA role is very technical and specialized, with highly qualified and trained staff, many of whom are career customs auditors.

The Post Clearance Audit function identifies instances of non-compliance by entities or traders after clearance of the goods and release into the economy. PCA also identifies "low risk" traders with historically high levels of compliance. Customs operations can therefore use a risk-based approach to identify and intervene with high risk consignments, supported by a PCA function that will identify cases of revenue loss among low risk entities or traders, and subsequently support those low risk entities to improve their internal controls and levels of compliance.

3. Methodology

This Gap Analysis was performed via multiple visits to relevant work sites to: (i) evaluate knowledge levels and competence regarding the PCA function, (ii) evaluate training needs of staff, and (iii)

assess additional technical areas within FBR/Customs that should be directly or indirectly involved with PCA as part of a broader compliance program.

The Assessment Team interviewed FBR/Customs staff in Islamabad, Karachi and Lahore, specifically:

- Directorate General of Post Clearance Audit
- Directorate General of Valuation
- Collectorate Customs Appraisement (South)
- Web-Based One Customs (WeBOC) Project
- Pakistan Revenue Automation (Pvt.) Limited (PRAL)
- Collectorate of Appraisement Wagah

A detailed list of interviewees and technical topics discussed can be found in **Annex A**.

The Assessment Team also performed document review to obtain background information regarding the current state of FBR's PCA, in comparison with "best practice" activities that comply with the International Convention on the Simplification and Harmonization of Customs Procedures, also known as the Revised Kyoto Convention (RKC). The following documents, laws and conventions were reviewed:

- FBR administrative structure organogram
- GoP Customs Act 1969 and Customs Laws
- Revised Kyoto Convention
- Statistical data provided by the PCA Unit

In addition, the Pakistan Customs Post Clearance Audit Manual was reviewed extensively to identify alignment and/or gaps vis-à-vis best practice principals. The body of this report includes recommendations for revising the PCA Audit Manual.

Training Needs Analysis (TNA) workshops were conducted with PCA staff to obtain specific information on prior training opportunities and current competencies, and to identify training required to conduct the full range of audit activities ascribed to PCA auditors under international best practices.

Note – The FBR did not grant access to certain audit plans and documents requested by the Trade Project's Assessment Team, therefore, the scope of the gap analysis was limited; however the Trade Project team believes that the methodology described above, including workplace visits, documentation review, and the TNA sufficiently supported an analysis of the current functionality and key challenges facing the FBR's PCA.

4. Relationship to Other Strategic Documents

In addition to performing a gap analysis of the FBR's PCA, the Trade Project is also supporting the FBR in achieving compliance with the RKC, and in improving its Compliance Management functionality. These technical areas are both relevant to strengthening the PCA unit, and as such, it is recommended that two additional reports produced by the Trade Project be used as additional references:

- The Revised Kyoto Convention Gap Analysis and Roadmap
- The Compliance Management Gap Analysis and Implementation Roadmap

5. The Revised Kyoto Convention and Post Clearance Audit

The RKC requires member customs administrations to implement certain standards in order to achieve compliance under the obligations to the Convention. In addition to the basic Convention and General Annex, which are obligatory for accession to the RKC, Pakistan acceded to the first chapters of Specific Annexes A, B, C and J in its instrument of accession, deposited October 1, 2004. The

basic Convention and the General Annex became binding on Pakistan on February 3, 2006 when the RKC came into effect. The first Chapters of Specific Annexes became binding on Pakistan on February 3, 2009 and February 3, 2011 depending on the type of standard.

The RKC identifies the PCA Audit function as a best practice principle, enabling trade facilitation tools to be implemented on the basis of risk management and compliance management to achieve broader WCO initiatives related to global supply chain security.

The RKC's numerous compliance management framework standards, which can be found throughout the convention and annexes, apply to the PCA function; however, Chapter 6, "Customs Control" contains two standards considered to be key reference points for the purposes of this report:

"Standard 6.6 - Customs control systems shall include audit-based controls."

"Standard 6.10 - The Customs shall evaluate traders' commercial systems where those systems have an impact on Customs operations to ensure compliance with Customs requirements."

The WCO Guidelines to implementing the General Annex provide an overview of the Post Clearance Audit and Traders Systems Audit approaches and methodology, and include topics such as risk-based selections, audit planning and conducting audits. The text of Standards 6.6 and 6.10 can be found in **Annex B**.

6. An Overview of Pakistan Customs Post Clearance Audit Implementation

6.1. Recent History

The FBR/Customs' PCA unit was initially established in Karachi in October 2008, with operations commencing in December 2008. PCA commenced in Lahore in June 2009. The Director General of PCA relocated to Islamabad in February 2010.

FBR personnel have attended study tours in Japan, South Korea and the Philippines to observe PCA operations; however, these tours provided little exposure to more complex audits such as system or computer-related audits. Additionally, many of the personnel who participated in these study tours are no longer staffed within the FBR's PCA unit, which limits the potential for knowledge-sharing and internal training.

Prior to facilitating additional study tours, the FBR should direct its efforts to strengthening its human resource capacity, including: (i) provision of training in audit and accounting techniques, (ii) retention of trained auditing staff, and (iii) development of a clear plan for post-study tour internal training timelines and capacity building to ensure technical knowledge is retained and continues to benefit the organization as a whole.

6.2. Development of the Post Clearance Audit Manual

The Assessment Team's discussions with the Director General PCA and audit staff confirm that progress has been made with regard to the FBR's integration of PCA practices, including production of a PCA audit manual.

The mission statement and objectives of PCA Pakistan appear in the audit manual, and are reproduced here:

"To establish a highly professional Customs audit organization having dedicated and trained human resource to conduct post-clearance audit based on well-defined and professionally accredited procedures with utmost integrity and in trade friendly manner to safeguard Government revenue in

respect of customs duties and other levies relating to imports and exports and to act as effective deterrent for improvement of trade compliance.

The primary objective of PCA is to safeguard government revenue against loss and fraud; and to ensure that the international trade complies fully with all Customs legislation as outlined below:

- To ensure that all imports and exports have been properly declared to the Customs.*
- That the amount of customs duties and other duties and taxes have been properly calculated and paid.*
- That the national and international trade controls, prohibitions and restrictions (license, quotas, CITES, etc.) have been fully observed.*
- That the conditions relating to goods imported or exported under notified Customs concessions and special procedures (e.g. EPZ, DTRE, manufacturing bonds, warehousing, transit, transshipment, etc.) have been fully observed and all liabilities relating to concessions and special procedures have been fully discharged.*
- That the businesses involved in international trade have fulfilled their legal obligation to keep and maintain records and all supporting documents/ correspondence for a period not less than that specified by the law from time to time.*
- That the traders, agents and other stakeholders who have been allowed special facilities for speedy clearance of international trade; like Automated Clearance Procedures/ Electronic Lane Facility and other special procedures, have complied with the relevant conditions in each case and that there has been no abuse of these facilities.*
- To educate the traders, agents, and other stakeholders carrying out such business as are regulated by this Act or any other law, directly or indirectly, and help them improve their level of compliance.*
- The experience gained during an audit activity shall contribute towards the improvement of the systems and controls at the clearance levels.”*

The Post Clearance Audit manual reviewed by the Assessment Team incorporates elements of good audit practice. The Assessment Team was informed that donors (e.g., the Japan International Cooperation Agency and the United Kingdom’s Department for International Development) have previously redesigned the manual, and the current version reflects many elements of the Japan and United Kingdom Customs PCA manuals. In addition, the International Monetary Fund has provided some comments.

The Trade Project’s review identified additional content that is recommended for inclusion in the PCA manual to improve the manual’s alignment with best practice international audit standards. The additions recommended by the Trade Project will improve the PCA unit’s functionality and credibility among traders and courts by establishing clear and consistent processes for valuation and auditing.

Recommendation 1

It is recommended that the following content be incorporated into the PCA manual:

- 1) The current rank structure should be augmented to include the roles and responsibilities of auditors based on functional responsibility (i.e., Audit Manager, Audit Senior, Auditor, and Audit junior or trainee).
- 2) Industry sector checklists are referred to on page 42 of the manual but are not included in the document. It is recommended that these be annexed to the manual.
- 3) The Charter of Taxpayer rights should be expanded to take into account the responsibilities of the taxpayer. This should also be published as a stand-alone document to distribute to traders when an audit is notified/ conducted. Distribution of such a document is an accepted best practice and ensures a transparent approach for audit clients.
- 4) The types of audits to be conducted, based on the assessed risk, should be expanded to include: (i) instructions on how to conduct a systems-based audit, (ii) instructions on how to

- conduct a computer-based audit, and (iii) guidance on the accounting documents to be examined.
- 5) A key element in risk and compliance management is the AEO scheme, which is employed in many countries as a best practice approach. The AEO scheme rewards highly-compliant, low-risk traders and incentivizes improved compliance from all traders. A company performs a self-assessment or prudential audit; subsequently, the PCA unit performs an extensive audit. If internal control weaknesses are detected by the PCA unit, AEO status should not be offered to the company. As such, the PCA manual should include guidance on how to conduct an AEO audit.
 - 6) It is now good practice to use the initial (entrance) interview and finalization (exit) interview to build rapport with the company being audited. Future compliance with legislation is encouraged by identifying the root cause of errors, and discussing strategies to reduce the likelihood of their occurrence. This approach allows customs to identify internal controls weaknesses and training needs at the industry level to inform future capacity building efforts.
 - 7) Best practice dictates that PCA management is responsible for conducting internal quality assurance reviews, and guidance on this should be added to the manual.

In addition to the content augmentation recommended above, the Trade Project made edits to the content currently contained within the manual. The suggested edits, embedded as red text within the full body of the PCA manual, can be found at **Annex C**.

7. The Current Situation of Post Clearance Audit Activities

7.1. Strategic Planning and Reporting

The Assessment Team was unable to locate a strategic plan for the FBR, despite extensive research and discussions with several Directors General. A strategic plan determines an entity's operations and future planning, and should be regularly reviewed and updated to reflect the requirements of the government. In the absence of a strategic plan, the PCA unit lacks important additional planning documents, including an annual operational plan, regional operational plan, and a detailed audit plan. As a result, the PCA unit is at risk of inconsistent and/or insufficient reporting processes, which may undermine the FBR's ability to produce an accurate higher level performance report. In addition, implementation of the PCA mission statement developed by the Director General PCA (see 6.2) may be impeded without documented planning strategies.

Recommendation 2

It is recommended that the Director General of PCA produce an annual operational plan for the Directorate. This plan should be aligned with an institution-level strategic plan (also recommended for development), and should be supported by lower level regional audit plans.

7.2. Legislation

The Pakistan Customs Act provides the legislative basis and powers for auditors to undertake a variety of audit activities and apply penalties as follows:

- Sections 26A and 26B give PCA auditors the power to conduct an audit, access premises and examine goods, records, documents, bank and accounting records. The penalties for contradiction of these sections are found in Section 156 sub-sections 12(A) and 12(B).
- Sections 155L and 155M of the Customs Act give powers to officers to enter premises to audit records, whether manual, electronic system, or systems to create records, as well as the authority to request and duplicate documents for examination.
- Sections 211 and 211A require entities involved with international trade to maintain records for a minimum of five years, and allow customs to access premises and records.
- The penalty regime for undervaluation, mis-description of goods and origin is detailed in Section 32 (untrue statement), which covers both deliberate intention and mistakes, and

Section 32A (fiscal fraud-intent). The penalties for breaches of these sections are detailed in Chapter 16 of the Customs Act, Section 156, table parts 14 and 14A, respectively.

The legislative powers outlined above and specified fully in the text of relevant legislation are sufficient to empower PCA staff to perform a majority of audit functions; however, the law should be strengthened to empower PCA staff to conduct a complete evaluation of traders' commercial systems, which is necessary to register a company as an AEO (discussed above).

At the time of the assessment, it was observed that auditors were not employing the legal authorities bestowed by these laws to enforce traders to cooperate. It is recommended that the PCA unit auditors be educated and trained on the scope of their authority, including the use of penalties, where appropriate, to encourage compliance.

In addition, a history of non-compliance by traders should be documented to facilitate the PCA's assessment of penalties, which are significant and should be used to encourage compliance.

Recommendation 3

It is recommended that PCA staff is trained in the application of legislative powers related to audit functions and the application of penalties in instances of non-compliance with Customs legislation.

It is accepted good practice that continual failure to comply with legislation will result in increasing penalties, as a means to influence trader behaviour; however, escalating penalties are rarely applied because an audit case is passed back to the referring appraiser for finalization, therefore there is limited ability to manage the application of appropriate penalties based on prior history.

Recommendation 4

It is recommended that national policy and procedures delegate authority and responsibility to PCA staff to enforce their powers and apply appropriate penalties as well as recommend a range of incentive measures for traders identified as being highly compliant.

7.3. Administrative Structure

The administrative structure of Customs contains clear delineations between Collectorates and Directorates, including the Directorate General of PCA, and follows a traditional hierarchical approach.

The Trade Project has produced a Customs Organizational Chart and a PCA Organizational Chart (see **Annexes D and E**, respectively). The Director General PCA reports directly to the Member Customs, and PCA is a Directorate unto itself. This structure differs from that of many modern Customs Administrations, which group the PCA unit with other relevant areas under a "Compliance Management" unit. A similar structure could be achieved within Pakistan Customs by bringing the (i) Enforcement, (ii) Facilitation and Compliance, (iii) Investigations and Intelligence, and (iv) PCA Directorates under one banner to form a Directorate General of Compliance and Enforcement. In addition, the two Directorates of Facilitation and Compliance, and PCA, could be grouped under the banner of Compliance Management. This recommended organizational structure can be found at **Annex F**.

7.4. Human Resource Policy and Staffing Levels

There is no documented policy regarding the rotation of staff into and out of PCA, nor a pre-requisite that PCA staff possess auditing skills. At the time of the Assessment, the audit area was staffed with Customs officers with little or no training or skills in audit techniques. Results of the assessment indicate that Customs staff may be transferred to the audit unit regardless of their professional goals or preferences, and often for a relatively short period of time (approximately 12 months).

With regard to the study tours mentioned above, there does not appear to be any guidance requiring tour participants to: (i) remain within the PCA unit for a minimum period of time following the study tour, or (ii) train and educate other PCA staff on the knowledge gained during the tour. This creates the risk that information and skills gained from study tours are not retained within the PCA unit.

The PCA function is currently understaffed. More than 100 positions have been established for the unit, but it is currently staffed by approximately 30 officers, with support provided by other areas on an ad-hoc basis as required. These PCA personnel are not trained auditors, and are referred to as PCA appraisers. In the absence of a fully staffed and operational PCA unit that performs audits according to a well-documented audit plan, PCA lacks the capacity to identify discrepancies that may lead to significant revenue collection, or to obtain sufficient evidence to document high levels of compliance for recommended facilitation rights such as deferred payments, integrated declarations, and access to AEO status.

Comments and information obtained during the assessment indicate that within Customs, PCA is perceived to be an area staffed with “non-performers”.

Recommendation 5

It is recommended that the Customs staffing policy be adjusted to reflect a minimum three year placement within the PCA unit, together with performance based measures to provide adequate remuneration for staff. Staff should be permitted to extend PCA placements beyond three years to encourage the development of career paths and internal promotions within the unit.

Recommendation 6

It is recommended to increase the capacity of the PCA with externally recruited, qualified Auditors and Accountants who are required to complete technical training on the HS Tariff Classification, WTO Valuation, and Rules of Origin prior to joining the unit.

7.5. Training and Development

Training Needs Analysis (TNA) workshops were conducted with approximately 25 PCA staff in Islamabad, Karachi and Lahore. These staff possessed a wide variety of academic qualifications, including Commerce, Law, Medical Doctors, and Engineers, but the Assessment Team did not encounter any staff with the specific academic qualifications that a PCA unit requires, namely, accounting or auditing. No staff possessed audit knowledge beyond simple transaction-based audit skills that were learned on the job as appraisers for declaration processing. Only two of the TNA participants had attended a PCA study tour.

There is no evidence of any record keeping of prior training (internally or externally) of PCA staff in the respective work areas visited. A database of training records should be maintained and disseminated to work area managers when personnel are transferred from one workstation to another.

The key outcomes of the TNA which impact PCA staff's ability to effectively perform and complete the unit's functions are as follows:

- a) Lack of skills and training to perform a full range of audits that include entity/systems audit, computer-based audit, and investigative audit.
- b) Lack of training in Harmonized System tariff classification, WTO Valuation and Rules of Origin
- c) Inability to conduct research on the Customs computer systems: Web-Based One Customs (WeBOC) has little historical data and the PCA module was not operational at the time of the assessment, as it is still in the design stage.

- d) Considerable delays in finalizing cases as a result of traders' disputes with audit outcomes, which automatically refers cases to the adjudication department for review. This occurs even when a trader produces no evidence of the reasons for dispute. It appears this process is being deliberately abused by traders to delay payment or penalty due.

Discussions with staff of the Directorate General of Valuation revealed strong knowledge of the WTO Valuation Agreement methods of valuing goods. This internal resource should be leveraged to provide training to PCA staff on this topic, whether in the form of classroom training or on-the-job placements and training in situ.

Recommendation 7

Pakistan Customs should take steps to recruit or internally rotate staff with academic qualifications in accounting and auditing and offer assistance for existing staff to obtain such qualifications.

Recommendation 8

All Post Clearance Audit staff be trained in entity/systems audit, computer-based audit and investigative audit, and receive high level training in HS Tariff Classification, WTO Valuation and Rules of Origin

Recommendation 9

A Memorandum of Understanding (MoU) be established (between the DG of PCA, and the DG of Valuation and Appraisement) for Valuation staff to conduct training for PCA staff in WTO Valuation, HS Tariff Classification and origin principles, and to allow specialist staff to assist PCA as required.

7.6. The Use of Risk Management for Audit

The application of risk management principles is practiced to a certain extent; the PCA area has a range of basic profiles they use to identify potential entities for audit. In reality, there is little opportunity to put those profiles to test with an actual audit, due mainly to the current policy regarding the types of audits conducted.

At the time of the assessment, the Collectorates appraisers provided PCA with the majority of its referrals. The referral process is flawed, insofar as the referring appraisers control the finalization of the audit, rather than the PCA area that conducts the audit.

Reports analysing and comparing the performance of particular industry sectors in areas such as valuation and the use of concessions would be of value. An analysis of the top importers in Pakistan should be performed, detailing revenue liability and other relevant areas from the customs declaration to assist in determining the scope and complexity of audits in order to address risks to revenue.

Properly structured management and intelligence reports are a valuable tool in directing resources to the highest risk, and providing information on the performance of various work areas such as PCA and compliance / risk management.

There is no dedicated module in the WeBOC system for storage of information and profiles for targeting of entities for audit through the Risk Management System. This is currently being developed by the WeBOC team. At the time of the assessment, the entire compliance management program and risk management targeting and selectivity were reliant on warehoused data for identification of high risks, low risks, and potential recipients of trade facilitation measures. Consideration should be given to establishing a "Blue line" routing system for PCA to examine cleared and processed declarations prior to and during an audit.

The development of the WeBOC storage and profiles module will allow PCA to perform research prior to the commencement of audits, and to enter profiles in-line with Risk Management principles. These advances should be accompanied by a redesign of the processes and procedures associated with audit targeting, referral of cases, and dealing with audit results. The Risk Management Directorate should become operational in order to establish and oversee all forms of selectivity processes, including the risk management and risk-based targeting that should drive audit selections. PCA staff has not received any formal training in risk management and profiling techniques, and should be conforming to the processes established by the Risk Management Directorate.

Recommendation 10

It is recommended that all PCA auditors be trained in Risk Management principles and profiling for audit targets to comply with the selectivity processes established by the Risk Management Directorate (at such time that the Risk Management Directorate becomes operational).

Recommendation 11

A Post Clearance Audit Risk Management Plan be prepared to drive all PCA annual audit plans and selection of audits outside of the audit plan. The Risk Management Plan should identify the type of audit to be conducted.

7.7. Audit Methodology and Types of Audit Conducted

There was no structured audit plan provided to the Assessment Team for reference. The Team was informed that audits are targeted using information provided to the DG from a variety of sources, as well as referrals from the appraisers at the declaration processing Collectrates.

Due to a combination of factors, particularly staffing levels, audit skills and training, the only audits currently completed are transaction-based audits. FBR/Customs advised that no systems-based or computer-based audits were conducted at the time of the assessment. Shortcomings in the audit methodology and types of audits conducted create the risk of undetected revenue leakage, and failure to detect compliance improvement among traders.

Recommendation 12

It is recommended that PCA staff is trained in Entity/Systems Audit and Computer-Based Audit, and conduct these types of audits in accordance with a properly prepared annual audit plan reflecting risk management principles.

Discussions with Customs officers at all levels indicate that FBR/Pakistan Customs operate according to the belief that larger multinational companies pose little risk to revenue; as a result it appears these entities have only undergone limited, transaction-based audits. Failure to properly audit these firms may encourage such issues as transfer pricing, non-compliance with a number of elements of the WTO Valuation agreement (such as related transactions or assists), or a lack of internal controls in the customs or supply chain area.

An analysis of the top 50 to 100 companies by number of declarations, customs value, duty and other taxes collected, concessions utilized, origin and HS codes used, and other categories as applicable, would present opportunities for targeting and profiling, and provide data for compliance measurement as documented in the risk management process of the RKC. This information was sought by the Trade Project as part of the Gap Analysis and would have benefited the recommendations within this report; however, the data was not provided by FBR/Customs.

As is the case in many other countries, approximately 80% of Pakistan's trade revenue likely comes from 10--20% of the import client base, composed of large traders. It is recommended that

FBR/Customs increase scrutiny of large traders as a source of significant revenue liability, wherein even unintentional errors may result in large revenue leakages.

Recommendation 13

It is recommended that the PCA unit conduct a thorough analysis of the importing history of the top 50 to 100 clients and use risk-based parameters to target entities for entity/systems based audits.

PCA's current focus on small and medium enterprise (SME) undervaluation may be diverting attention and resources from auditing larger traders. It is recommended that PCA utilize the data recommended for collection (Recommendation 13) to conduct a comprehensive systems-based audit (at the owners' premises) to determine internal controls and supply chain controls established within a company's systems. Additionally, if necessary, PCA should analyse traders' methods of determining customs value, utilizing accepted WTO transaction value methods as a point of reference.

Audits performed at an entity's premises provide auditors with access to emails discussing and agreeing on prices, catalogues, contracts, bank statements, recording of payment in accounting records, profit calculation in stock records, and the history of similar imports over a period of time.

PCA is also advised to review external audits conducted by private accounting firms, together with the tax audit report performed by FBR.

Recommendation 14

It is recommended that PCA prioritize the commencement of Entity/Systems Audit and Computer-Based Audits once appropriate training or recruitment of suitably qualified people has been completed.

There is no structured quality assurance of finalized audits; rather, they are assessed by a senior officer and then approved by the DG PCA. A suggested quality assurance manual has been provided to the PCA leadership team in Islamabad and this manual should be used to implement a quality assurance program for PCA.

7.8. Completion and Finalization of Audits

As part of the audit process, if errors that resulted in revenue shortages have been detected, the auditor calculates the revenue payable and discusses this issue with the trader/entity being audited. The auditor has no authority to assess or recommend any penalties at this stage. If the trader agrees with the error finding and revenue liability, the revenue is collected and the case finalized.

The calculation and details are recorded on a contravention note. Full details of all audits, including those with contravention reports, are submitted to the DG PCA for approval. Under normal circumstances, this approval takes approximately one week.

In the case where the contravention report is disputed by the trader, after the report is approved by the DG PCA, the case is submitted to the Collectorate of Customs Adjudication for an internal review. This internal review is required regardless of whether the trader is able to provide the PCA auditor with evidence to support the reasons for the dispute.

The adjudication process may take in excess of 6 months to provide a decision. Considering the length of time required for resolution, traders may use this policy to deliberately delay an assessment requiring payment. The adjudication panel can assess penalties if appropriate. At this stage of the review the auditor and audit manager are given the opportunity to present their case, including the trader's performance history.

At the time of the assessment, the approach employed by Customs' PCA unit did not reflect best practice audit principles, including a compliance-based approach. The absence of an exit interview in the current process denies PCA and the entity involved the opportunity to discuss strategic approaches to improving compliance levels. Conducting and finalizing an audit through the assessment and demand of revenue shortage, and the penalty assessment, should be completed by the PCA audit area, with no internal review. At the time of the assessment, the resolution of cases requiring payment was subject to delay as a result of the current appeals process structure.

A range of approaches to improve compliance are available to, and the responsibility of, the PCA auditor. These include educating traders on requirements, assessing penalties and sanctions, and increased border intervention and scrutiny applied to high risk traders. These approaches encourage low risk, high compliance behaviour using simplified procedures such as monthly declarations, deferred payment, or entry to the WCO AEO program.

Recommendation 15

It is recommended that audit exit interviews are conducted for all audits so that entities can make informed changes to business processes that will improve their level of compliance.

7.9. Results and Performance Reporting of Post Clearance Audit

A data table summarizing the Directorate General of Post Clearance Audit's Detection of Tax evasion from July 2012 to June 2013 was provided to the Assessment Team and is available at **Annex G**. An excerpt of the data, together with information related to staffing levels, is provided in Tables 1 and 2 to illustrate the potential relationship between revenue recovered and identified staffing shortages.

Table 1

Type of Detections	Total Revenue Shortfall (PKR millions)	Actual Revenue Recovered (PKR millions)	Percent Recovery to Detections (%)
Undervaluation / Non application of Valuation Rulings	867	Not Available	
Misuse of Exemptions and Statutory Regulatory Orders (SROs)	393	Not Available	
Mis-description/ incorrect tariff Classification	44	Not Available	
Other	2		
Total	1,306	15.3	1.2%
Total in Karachi	212	1.3	0.6%
Total in Lahore	1,094	14	1.3%

Table 2

PCA Location	PCA Sanctioned Staffing	PCA Actual Staffing (approximate)	Actual Revenue recovered (PKR millions)	Average Revenue Collected per Auditor (PKR millions)
Karachi	40	7	1.3	18
Lahore	35	15	14	94
Islamabad	25	10	N/A	
Total	100	32	15.3	

As noted previously in this report, detailed audit statistics requested by the Assessment Team were not provided; therefore only a limited analysis of the effectiveness and efficiency of the PCA unit could be performed.

The debt recovery rate compared to the assessed revenue shortfall, an average of 1.2%, is significantly low, and may be attributed to the appeals process that does not require justification for traders' disputes of audit findings.

The resourcing and performance of Karachi in particular is of great concern considering that the majority of customs declarations are lodged in Karachi, therefore the majority of customs revenue is collected there as well. As such, Karachi should have the highest staffing levels in order to perform audits, detect revenue shortfall, and manage revenue collection. The discrepancy in performance between Karachi and Lahore raises concerns within this context, considering the difference in the volume of declarations being processed and available for transaction audit.

The Trade Project and FBR believe Pakistan's revenue loss due to valuation issues to be substantially higher than the identified shortfall amount equivalent to USD \$13 million. A PCA unit that is well-trained, well-resourced, appropriately remunerated, empowered correctly and monitored appropriately should be a priority of the highest order, to reconcile the gap between estimated and identified shortfall amounts and to strengthen the capacity of Pakistan Customs.

The statistics suggest significant revenue leakage from valuation-associated issues, which was also reflected in information provided to the Assessment Team by Customs personnel at all levels. Valuation is a weakness within Customs, and improving this function will require a multi-faceted approach that includes training for Customs and the Agents industry, robust risk management and targeting, enforcement, bi-lateral cooperation and mutual assistance agreements, and an effective PCA unit. All of these components are part of a broader compliance management framework.

There are many techniques that auditors can use to identify undervaluation. These include examining accounting records and associated documents used to value stock in subsidiary ledgers for the balance sheet and profit and loss account. Companies that undervalue for customs purposes often use a different, higher value for tax as it reduces the taxable income. Auditors may detect discrepancies when they compare tax and customs records. Therefore a MoU between the PCA area and FBR Tax Audit area allowing the exchange of information on audits will facilitate stronger valuation practices within the PCA unit.

Recommendation 16

It is recommended that PCA units be staffed by fully trained and competent officers, and that staffing levels are increased to reflect sanctioned levels.

Recommendation 17

It is recommended that the DG PCA establish MoUs with the DG Valuation and the FBR Tax Audit for the exchange of relevant information related to valuation and taxpayers, respectively. These MoUs should also include technical assistance and capacity building activities.

7.10. The PCA Module of WeBOC

The Additional Director, WeBOC provided a demonstration of the current status of the system as it relates to the PCA function. At the time of the assessment, the system was still under development, and required significant updates to support the PCA unit.

There is currently no historical data in the system, which will make it difficult for PCA to perform historical searches. The specific search function within the database was cumbersome and there was no complex reporting function allowing detailed analysis by the system. PCA Islamabad has requested extensive modifications to the WeBOC module following input from auditors in Karachi and Lahore.

The modification requests include:

- Historical data for the past year from “One Customs” and associated Customs systems
- An ability to search individual client history based on declarations and to download information onto an Excel spreadsheet
- Details of declarations converted from yellow to red selectivity or cleared from yellow line selectivity
- A log of declarations when they are amended or changed
- Data mining option on the basis of description of goods
- Option to view green channel clearances
- An ability to compare declaration data of the selected audit client with competitors and similar importers
- Reports on the entire import database by declaration type, duty payment, Customs value, concessions claimed, origin, and free trade agreement numbers
- Reports on the performance of individual trader, including detections of errors, SRO misuse, undervaluation, mis-classification, mis-declaration and exemption misuse

In addition to the modifications requested by PCA, the Trade Project recommended that the module be updated with the ability to report on the costs and time duration of audits, as well as officer results.

8. A Roadmap to Continue Development and Increase the Capacity of the Pakistan Customs Post Clearance Audit

During the course of this examination and analysis, a number of deficiencies across many areas were identified. These include an incomplete automated customs clearance system, limited use of risk management, and no structured approach to strategic planning and compliance management at the front end of customs activities and interventions. These weaknesses lead to problems with the efficient and effective implementation of PCA at the back end of customs activities and interventions, and should be addressed as part of efforts to improve PCA functionality.

There are a number of recommendations that will contribute significantly to the development and capacity of the PCA unit. Many of these are interrelated, and have the capacity to improve performance if implemented in a systematic and sustainable way.

8.1. Update the Post Clearance Audit Manual

Recommendation 1 provides detail on recommended inclusions or amendments to the current PCA manual. These include items such as roles and responsibilities, industry sector checklists, charter of taxpayer's rights, instructions to conduct systems-based audit and computer-based audits, procedures for an AEO audit, the use of entrance and exit interviews, and quality assurance reviews.

To assist with implementing these additions the Trade Project has produced three job descriptions for individual functions and responsibilities within the PCA. These positions are for “Head of Post Clearance Audit Unit”, “Post Clearance Senior Auditor” and “Post Clearance Evaluation Officer”. These three Job Descriptions are provided for the reference of the DG PCA, and may require edits to ensure language and terminology consistent with Pakistan Customs. The job descriptions can be found in **Annexes H, I and J**.

8.2. Implement a Strategic Planning and Reporting System

The lack of a high level strategic Business Plan and coordinated Reporting System for Customs is a concern that needs to be addressed over the long-term; however, in the interim the impact can be mitigated with some initiative and leadership from the Directorate General of the PCA. The PCA Manual documents the vision and objectives of the DG PCA, which should be detailed further in a plan to support the achievement of the stated vision and objectives.

A strategic operational plan for the DG PCA should include, at minimum:

1. High Level Objective
2. Strategic Statement/Approach to achieve the objective
3. Key Activity/Lower level Objective
4. Individual Components/Milestones of the key activity
5. Deadlines to complete the key activities
6. Resources required to conduct key activities
7. Persons responsible for completing activities and reporting progress

8.3. Strengthening Legislation and Policy for Audit Activities

The current Customs Law is sufficient to allow post clearance auditors to perform their regular duties; however, the dynamic environments of international trade and customs necessitate legislative and policy amendments to stay current with best practice initiatives.

To further strengthen Customs powers to complete a full range of audits and to approve authorized economic operators with total assurance, the law should be amended to include: (i) granting of additional powers to Customs to allow a complete evaluation of trader's commercial systems, and (ii) special facilitation rights to be afforded to those highly compliant traders or entities.

It is necessary to prepare and formalize specific policy and procedures that clearly separate the PCA function from the appeal and adjudication process, and allow PCA auditors to recommend a variety of sanctions and penalties when non-compliance with legislation is detected. PCA auditors should be empowered to apply increasingly harsher penalties to traders that exhibit repeated non-compliance by way of undervaluation, mis-description of goods, or mis-declaration of origin, for example.

8.4. Policy and Strategy to Staff the PCA Appropriately

It is important to put measures in place to ensure that PCA is fully staffed to its establishment level with competent personnel in order to effectively address international trade non-compliance. To achieve appropriate staffing levels, policy change must be accompanied by a strategic approach to recruitment and retention of qualified audit staff within the PCA unit. Competitive pay scales that incentivize career paths within PCA, and ongoing professional development opportunities, should be provided. The unit should continually modernize its approach to PCA audit to reflect international best practice, which can be facilitated through ongoing research, communication, and cooperation with other Customs administrations. In addition, paid study leaves for staff to achieve university audit or accounting qualifications should be considered, as appropriate.

In the short term (6-12 months from the time of this assessment), PCA audit capacity should be strengthened through the external recruitment of qualified Auditors and Accountants who should be trained internally in the principles of valuation, tariff classification, and origin, until such time as existing staff and internally rotated staff can develop their audit skills and obtain qualifications.

The development, approval, and implementation of a staffing strategy should be prioritized. At the time of the assessment, current staff levels and capacity were observed to have a significant negative impact on PCA's efficiency, effectiveness, and staff morale. In the absence of a staffing strategy, it is expected that the poor performance and results of the PCA unit will continue to deteriorate, with significant impact on FBR revenue. In conjunction with the FBR HR/ staffing area, PCA should develop a yearly staffing plan that includes training, skilling, staffing numbers, staffing levels, and planned recruitment (both internal and external).

8.5. Training and Development of PCA Staff

PCA staff should be fully trained and skilled to conduct complex system and/or computer-based audits. The large majority of companies are not currently being reviewed in line with best practice standards. This is because no system- or computer-based audits are conducted.

Customs should have a strategy to extend this type of training to look at forensic accounting and ongoing training in WTO valuation, HS, and origin. Industry-specific training should be conducted to equip auditors with knowledge of specific tariff areas such as textiles, chemicals and pharmaceuticals.

Consideration should be given to establishing formal, ongoing training relationships with internationally recognized/accredited professional accounting/audit bodies, or private accounting/audit firms, to provide opportunities for PCA auditors to receive external accreditation.

In the event that PCA auditors are unable to attend internal training in the short term, interim measures such as local level MoUs should be prepared and implemented with specialist areas of Customs such as Valuation and Tariff.

8.6. Improved Application of Risk Management by Post Clearance Audit

The key component in a modern customs environment is the existence of a professional, highly organized, highly trained operation with full time intelligence analysts gathering information to assess the level of risk posed to customs operations by importers, exporters and the supply chain. Consignments or entities are then targeted through the automated clearance system.

The guidelines for the implementation of the RKC's standard 6.5 for compliance measurement note that, often, 10% of trading entities account for 80% of trade volume within a given country. Therefore, if high levels of compliance assurance among these major traders can be facilitated, it will mitigate the majority of revenue loss risk.

PCA staff should be trained/ retrained on the fundamentals of risk-based profiling and targeting to facilitate a strong knowledge base regarding risk-based audit selection. This is an important prerequisite to effectively operating the forthcoming WeBOC module that will have the capacity to target entities or sectors for audit within an automated environment.

PCA should undertake a formal risk management process to analyse and assess all risks associated with commercial international trade and create a risk register and a risk management plan. The risk management plan can then be used to target entities for audit. The level of risk associated with an entity will determine the type of audit to be conducted, whether transaction, systems, computer or investigative.

A formal risk management process will enable PCA to regularly produce an annual audit plan and systematically implement the plan in a transparent manner following the guidelines of Standard 6.6 of the RKC (see **Annex B**).

The FBR's IT environment should have the capacity to flag cargo identified as high risk for further analysis/ intervention. This approach extends to identifying low-risk entities that can be facilitated at the border and dealt with using a post clearance audit approach.

The development of the WeBOC module for PCA will allow the PCA to perform research prior to the commencement of audits, enter profiles in line with Risk Management principles, and use a "Blue Lane" approach to targeting and analysis of entities.

A “Blue Lane” PCA intervention can occur when an entity is selected directly by PCA for future audit according to the audit plan, or is selected by a combination of pre-set risk parameters triggered during the declaration processing, regardless of interventions that occur at the time the declaration and/or entity is referred to the PCA for future audit of some kind.

A flow chart of the “Blue Lane” selectivity process is provided at **Annex K**.

8.7. Increasing the Quality of the Audit Methodology and Types of Audit Conducted

In addition to the guidelines presented in **Annex B**, the following recommendations will also assist the PCA unit to increase the quality of audits, and results for effort in both revenue collection and compliance levels.

A well-structured risk-based audit plan developed and followed annually, supported by existing legislation and higher levels of training and expertise, will allow PCA to expand its functionality beyond the current limited scope of transaction-based desk audits.

An audit plan allows traders to be notified of an impending audit well in advance, and should improve appearances of transparency and limit false claims of bias and refusal to cooperate. PCA should adhere to the audit plan and the regulations that govern the unit’s work in order to reduce the risk that audit scope and completion are subject to the influence of traders.

The audit plan should include a combination of transaction-based, entity/systems-based, and computer-based audits according to risks and previous audit history. The ability of the PCA unit to conduct the more complex entity and computer-based audits hinges on the recruitment of additional staff with auditing and accounting qualifications.

Internally the DG PCA can also improve its relationship and interaction with other Customs areas to access information it requires to perform its function. It is recommended that FBR Tax units, and government agencies that retain data or some regulatory control over entities involved with international trade, be targeted by PCA for improved communication and coordination.

FBR has the capacity to share information between income tax, sales tax and Customs, which could be facilitated under a MoU. After the PCA unit begins to conduct comprehensive system-based audits, results of audits by other FBR units will be of value to PCA. In particular the assessment of the value of goods is calculated differently for Customs and income tax purposes, offering differing incentives to traders to establish a value. The MoU should be designed to detect this type of non-compliance.

If such cross-government cooperation and coordination were facilitated, it would enable larger-scale efforts, such as a combined Customs and Tax systems- and computer-based audit of 10 of the 50 largest companies in Pakistan, and of all companies that have refused audit requests in the previous 12 months. This type of activity, if executed appropriately, will present the GoP as a united front committed to ensuring compliance at all levels of the law.

8.8. Introduce Exit Reports and Compliance Management to Complete and Finalise Audits

The Audit Manager is responsible for conducting audits and any subsequent assessments; at no point should the DG PCA be involved in this work. The best practice approach that should be adopted is as follows:

- 1) Once an auditor detects a revenue underpayment or other material error, they should fully document the problem and discuss and gain sign off from the audit manager

- 2) The audit is finalized with an interview conducted between the audit manager, auditor and senior management of the trader/ client
- 3) During the interview the audit manager will discuss the results of the audit, including discrepancies found and system breakdowns that weaken internal controls, suggested improvements to facilitate future compliance, and any intention to levy penalties
- 4) The trader is given the opportunity to respond to these concerns as well as to provide evidence if he/she disputes any of the audit findings
- 5) This response is provided in writing to the audit manager, prior to the completion of the final audit report
- 6) The representation is considered and if dismissed, the audit manager proceeds with the issue of the final report including a demand payment of revenue shortfall and penalties

A letter from the Audit Manager to the trader detailing the results of the audit should contain a payment invoice for the revenue shortfall and penalty, and text of the legislation that permits the trader to appeal against the finding.

The focus of compliance management is to not only identify non-compliers and compliers, but to also provide guidance and assistance to those entities that need to improve their compliance levels. Therefore, at the exit interview stage (step 3 above), Customs should provide feedback to the client taxpayer on achieving compliance with satisfactory accounting and operating practices to avoid future errors and discrepancies.

Companies that make concerted efforts to improve and increase their levels of compliance, and actively seek the assistance of Customs to do so, will be subject to a reduced number of Customs interventions by document verification, physical examination, and audit, and be less prone to errors and penalties. Those entities that continually fail to comply will be subject to increased penalties, investigations, and potential prosecution for fraud.

8.9. Strengthening and Streamlining the Appeals Process

At the time of the assessment, the congested and ineffective appeals system was preventing the GoP from collecting significant revenue. To improve the appeals system, the process should move forward only after traders pay duties and penalty liabilities. The appeal will then be heard within 28 days of “payment under protest”.

Recommendation 18

It is recommended that demands for payment are receipted into the government revenue account prior to the registration of an appeal.

Separation of the PCA function from the appeals process will allow the PCA to collect lost revenue and finalize cases in a timely manner. This separation will require legislative and policy changes, but will provide significant long term benefits. A two level appeal process in accordance with new legislation should consist of an internal appeal and an independent review tribunal.

Internal Appeal

An internal appeal should be heard by a panel comprising representatives nominated by the private sector (e.g., a chamber of commerce), an independent customs representative, and an independent, legally qualified panelist with no association with customs or the trader under review.

This panel should provide all parties with a “statement of findings” that is in line with the legal and policy framework of Customs and the GoP, taking into account all of the facts and documents presented for consideration.

Independent Review Tribunal

An independent review tribunal which is part of the legal system of Pakistan should be established to provide fair, impartial, high quality and prompt reviews with minimal bureaucratic formalities. The majority of review tribunal members should be legal professionals, supported by subject matter experts.

This two tier appeal process will keep customs revenue matters out of the court system and will assist in eliminating frivolous appeals by traders who aim to delay payment for an extended period of time.

An article published in the *News International* on July 30, 2013 highlights the impact of frivolous appeals, combined with non-requirement to pay revenue liabilities prior to lodging an appeal.

“An amount of Rs6.03 billion claimed by Pakistan Customs has been stuck in cases pending before different legal fora. In a briefing to Member Customs Nisar Muhammad Khan, the Model Customs Collectrates (MCC) Appraisalment (East) confirmed that revenue to the tune of Rs6.029 billion is stuck in 1,250 litigation cases.

Furthermore, a majority of cases are pending before the high courts. A staggering sum of Rs4.69 billion is stuck in 237 cases.

The remaining amount is stuck in cases that are pending before the Supreme Court, appellate tribunal and collector (appeal). The Member Customs has been informed that authorities were waiting for Islamabad High Court’s order to recover Rs400 million in a case filed by tiles importers.

The collectorate said that in FY13, the court dismissed about 26 petitions in these cases and the remaining 22 are still in the court.”

Recommendation 19

It is recommended that a high level government review of the current adjudication and appeals process be conducted, and alternative solutions be developed to eliminate this backlog of unpaid revenues

8.10. Developing the WeBOC PCA Module and Automating PCA.

The ongoing development of the WeBOC module for PCA will allow the PCA to perform research prior to the commencement of audits, and enter profiles in line with Risk Management principles; however this improved functionality should be combined with a redesign of the processes and procedures associated with audit targeting, referral of cases, and dealing with audit results.

Many of the Directorates in Pakistan Customs operate in isolation as a result of an outdated administrative structure, and a combination of manual and automated systems. It is therefore important that, pending completion of the updated WeBOC PCA module, the PCA unit has total access rights in the entire WeBOC system to conduct thorough research and analysis of entities, commodities, and reports. This will enable PCA to effectively target entities for audit and collect as much background information as possible prior to commencing a planned audit.

In addition to the WeBOC system, the PCA unit should have limited access to intelligence databases of the Investigations and Intelligence Directorate, and be able to source intelligence data from a variety of agencies that have information related to entities and taxpayers (e.g., Commerce and Business registration, FBR Income tax and Company tax records). All of this data should be available in the automated system.

9. Conclusion

This Gap Analysis identifies the areas needing improvement in order to establish PCA Audit as a best practice area of Customs. Management awareness and appropriate intervention, together with an overall understanding of WCO principles by stakeholders, will resolve many of the weaknesses outlined here. Strengthening the PCA unit will require cooperation among key areas of management and operations to introduce risk management, intelligence gathering, and compliance management in operations while standardizing the audit process in line with the manual, audit policy, and procedures.

In addition, a realignment of staffing, recruitment and remuneration policies will assist the area in recruiting professional audit, accounting and Customs qualified staff that are focused on a career in audit and empowered to perform the unit's mandate.

Implementation of the recommendations contained in this report will facilitate the Customs Directorate General of PCA's transformation into a best practice organization as part of larger FBR reform efforts. As a result, revenue will increase, border interventions will be reduced, and entities will be eligible for vital trade facilitation rights as a reward for high levels of compliance.

Annex A: Staff Interviewed for Gap Analysis

Islamabad: The following staff provided feedback on functions and training needs

- Humayun Khan Sikandari (Director General PCA)
- Irfan Wahid (Additional Director)
- Ayesha Niaz (Deputy Director)

Karachi: The following staff provided feedback on the PCA operation and training needs

- Nasrullah Khan Wazir (Additional Director PCA)
- Kamran Ali Rana (Deputy Director PCA)
- M. Talib Hussain (Deputy Director PCA)
- Ataullah Shabbir (Deputy Director PCA)
- Saad Ata Rana (Deputy Director PCA)

The following staff discussed issues specific to their respective functions within the PCA unit:

- Muhammad Amir Marwat (Director General Valuation)
- M. Javed Ghani (Additional Director Valuation)
- Wajid Ali Additional (Director Valuation)
- Tanvir Ahmed (Director WeBOC)
- Syed Aftab Haider (Additional Collector WeBOC)
- Sohaib Khan (IT Source, PRAL)
- Shoaib Ahmed (IT Source, PRAL)
- Khuzaim Niazi (IT source, PRAL)
- Mohammad Yahya (Chief Collector Customs Appraisalment- South)

Lahore: The following staff provided feedback on the PCA operation and training needs:

- Muhammad Sadiq (Additional Director PCA)
- Dr. Akhtar Hussain (Additional Director PCA)
- Sumaira Umer (Deputy Director PCA)
- Beelum Ramzan (Deputy Director PCA)
- Tayyeba Kiyani (Additional Director Valuation)

The following staff discussed issues specific to their respective functions within the PCA unit:

- Lutfullah Virk (Chief Collector)
- Saud Imran (Director PCA)
- Saadia Munib (Additional Collector Wagah)
- Shafiq ur Rehman (Deputy Collector Wagah)
- Zebu Hai Azhar (Collector MughalPura Dryport)

Auditors: The following personnel were interviewed on issues related to PCA operational and training needs:

- Mr. Babri
- Mr. Arshad Muhammad
- Mr. Attique ur Rehman
- Mr. Jamil

Appraisers: The following personnel were interviewed on issues related to PCA operational and training needs:

- Mr. Imran
- Mr. Mubbasher

Annex B: WCO Guidelines to PCA and Traders Audit

Text of the General Annex Guidelines, Chapter 6 Customs Control, Revised Kyoto Convention.

Post clearance audits (Standard 6.6) – Customs control systems shall include audit-based controls

Introduction

Post-clearance audit focuses on persons involved in the international movement of goods. It is an effective tool for Customs control because it provides a clear and comprehensive picture of the transactions relevant to Customs as reflected in the books and records of international traders. At the same time it enables Customs administrations to offer the trader facilitation measures in the form of simplified procedures (e.g. periodic entry system).

Development of audit programs

Customs administrations should identify post-clearance audit categories, e.g. importer/exporter, value, foreign trade zone, broker, and carrier manifest, and produce manuals to provide step-by-step guidance for carrying out audits.

Selection of persons/companies for audit

The selection of persons/companies for audit should be based on risk profiles. Audits should generally be conducted for compliance verification purposes in the areas of Valuation, origin, tariff classification, duty relief/drawback/remission program, etc., but other areas should be targeted as necessary. Depending on the profile of the auditee and its business (e.g. type of business, goods, revenue involved, etc.) the audit may be conducted on a continuous, cyclical or occasional basis.

Annual audit planning

Audit planning should take place every year, taking into account the availability of the auditor or audit team, in relation to work in progress and the start of new audits. Each audit area could be assigned standard hours of completion and each available auditor or audit team hour could be calculated in order to determine how many audits can be performed by each auditor or audit team in a given year. Alternatively, each stage of the audit activity could be broken down into time blocks in order to measure productivity against time spent. Both methods allow Customs to allocate resources effectively.

Audit process

Post-clearance audit places great emphasis on professionalism in the conduct of a review and the examination of the auditees' books and records. From pre-audit planning to completion, it is essential to maintain communication and co-ordination with the auditee and with other interested parties in Customs. A report should be produced to ensure that all findings and other relevant issues are fully shared and discussed. Follow-up visits may be needed.

Audit phases

Pre-audit survey: The first step in the audit process is to assess and evaluate the strength and weaknesses within the commercial system of the auditee. Depending upon the size and location of the company to be audited, Customs may choose to perform an on-site survey or request corporate data of the auditee via a background questionnaire.

Such a survey may include gathering data regarding corporate organization and structure, commodity information, methods of payment, value of commodities, costs associated with commodities, detailed product-cost information/submissions for analysis, related-party transactions, and record-keeping systems. This information may be commercially sensitive and should therefore, as with other information passed to Customs, be treated as confidential.

Initial importer contact: Before carrying out a routine compliance audit, Customs administrations should contact the auditee to request detailed information on the types of records and documentation needed.

These may include: commercial invoices, shipping records, purchase orders, delivery notes, accounts, records, contracts, royalty and marketing agreements, inventory records, journals, ledgers, business correspondence, records of payments.

Initial Audit conference: The initial meeting should be attended by the auditor or audit team, representatives of other Customs areas as needed, and representatives of the auditee (e.g. consultants, accountants, controllers, lawyers). The auditor or audit team will discuss the scope and objectives of the audit.

The auditee has a vested interest in acquiring and maintaining Customs facilitation, and therefore has a responsibility to ensure that the audit is carried out in a professional manner. Representation by a senior member of the company is invaluable to ensure a high level of co-operation. It is at this conference that the auditee should designate a representative to whom all requests for the production of documents (books, records, etc.) should be directed.

Audit questionnaire: Companies may be asked to fill out a questionnaire to obtain information about their structure, related-party transactions, commodities, methods of payment, valuation, manufacturing costs, sourcing and supply. In related-party transactions, the foreign parent company may also be asked to complete a questionnaire focusing on information regarding the relationship between the auditee and its parent company. Completion of such a questionnaire by the foreign parent company would be purely voluntary.

Internal corporate review: Customs administrations should encourage the auditee, where practical, to carry out a preliminary self-evaluation, review and analysis of its operations in relation to the audit.

Audit co-ordination: The auditee should be kept fully informed of any potential findings or other relevant Customs matters throughout the audit.

However, if a significant misrepresentation or potential Customs offence is discovered during the course of the audit, the audit team should communicate and co-ordinate with the appropriate enforcement unit who will decide whether to start a formal investigation.

The Customs administration may make information available to other revenue/tax agencies, in accordance with national laws on confidentiality.

Exit conference: A formal meeting should be held with the auditee to present the findings, and to provide an opportunity for the auditee to give any explanations needed, to assist preparation of the final report.

Final report: Customs administrations should prepare a final report and let the auditee have a copy, provided that national law provides for this. A copy should also be sent to the appropriate Customs office for resolution of any issue which has arisen.

Follow-up Visit: To conclude the audit process, Customs may carry out a follow-up desk audit to ensure that any findings and recommendations for changes are carried out by the trader.

Traders' Systems Audit (Transitional Standard 3.32 and Standard 6.10)

Introduction

Customs must carry out traders' systems audit for control purposes, as a quid pro quo for greater facilitation, which can include a trader's use of his computer systems for preparation and submission of single or periodic declarations, and for self-assessment.

The audit of traders' systems aims to provide assurance that a particular activity or process is being carried out properly. Systems audit, as the name implies, means looking at the entire processing cycle rather than just the transactions themselves. It does not rely on a fully visible audit trail and substantive testing of all or a significant number of transactions, as in a manual system. Instead, systems audit uses the inherent properties of computer processing to provide user confidence.

If it can be established that the process itself is reliable and accurate and the controls which govern it are sound and complied with, then safe assumptions can be made regarding the quality of the output and facilitation measures can be granted.

The traditional method of checking the accuracy of the "books" on a transaction basis is not only inappropriate in a computer environment, but also probably impossible. Even advanced methods using file interrogation methodology are of little use unless the auditor or audit team understands how the computer and its associated manual procedures combine to produce the required information. This is where a systems audit is most effective.

The principal steps in a systems audit are as follows

Planning

This initial phase, which is critical to the success and credibility of an audit, will define the direction, scope and ultimate goal against which to measure the effectiveness of the audit.

The planning stage will determine amongst other things

- The objectives;
- The scope;
- The risk areas;
- The conduct of the audit including preliminary and exit meetings with the auditee;
- The duration of the audit;
- The necessary resources needed to undertake the audit;
- The availability of key personnel for interview purposes; and
- The extent to which changes to the system or the organization operating it have affected previous audit knowledge.

When Customs is considering allowing self-assessment, the planning stage will include the establishment of criteria against which a trader's systems should be judged. These will include his financial soundness and his capacity to

- Distinguish between import, export and domestic consignments, allowing appropriate allocation of duty and taxes,
- Allocate and identify consignments to specific Customs regimes,
- Identify consignments requiring a licence or permit,
- Calculate tax and duty liability on consignments,
- Regularly update commodity code and duty rate files,
- Cross match commercial part numbers against commodity codes,
- Use valuation calculation methods appropriate to the traders business transactions,
- Issue management reports providing assurance of completeness of accounting,

- Identify outstanding, unreported consignments,
- Perform quality cross-matching of commercial transport and accounting information with
- Statistical and accounting information declared to Customs,
- Exercise quality control and management checking procedures to ensure the system is functioning correctly,
- Retain historical data for long enough to comply with national legal requirements and
- Use satisfactory back-up procedures in the event of a system breakdown.

Enquiry or fact gathering

By interviewing personnel at all levels in the management chain, both the application users and the data processors, the auditor or audit team can discover how the system actually works. The auditor or audit team will also refer to any material such as user guides, system specifications, which is available. The controls or lack of them, both internal and operational can then be identified. Often the way the system works is at variance with how it was designed and implemented and how individuals, especially senior managers, perceive it to be working. The auditor or audit team can also deduce much from the state of system documentation, or the lack of it. For example, it may be out of date or incomplete.

Recording the system

The auditor or audit team will record the findings either by means of a narrative text or pictorially, by the use of flow diagrams, or both. The diagrams can be at different levels of detail, from a broad overview to actual stages in computer processing. They can cover the document flows before and after computer processing. At this stage the auditee will normally confirm the auditor's or audit team's understanding of the system, before moving on to the next phase.

Evaluation

By reviewing and evaluating the evidence gathered, the auditor or audit team will begin to discover actual or perceived weaknesses in the internal controls. They can then plan tests to measure the effectiveness of the controls and the credibility of the output.

Testing

Testing is carried out to some extent at various stages of the audit, for instance at the fact-gathering stage, by observation and as a result of evaluation. It can be by inspection of records, output reports, etc. or even re-enactment of the processing cycle. Using advanced techniques, i.e. file interrogation software, it is possible to test for unusual combinations of data which could lead to incorrect processing as well as for straightforward situations.

Report

The outcome of the audit will usually be a report to senior management which will make recommendations as to how identified weaknesses can be eliminated or controls tailored to be more effective. Controls can even be discarded if they are seen to be irrelevant in a particular situation.

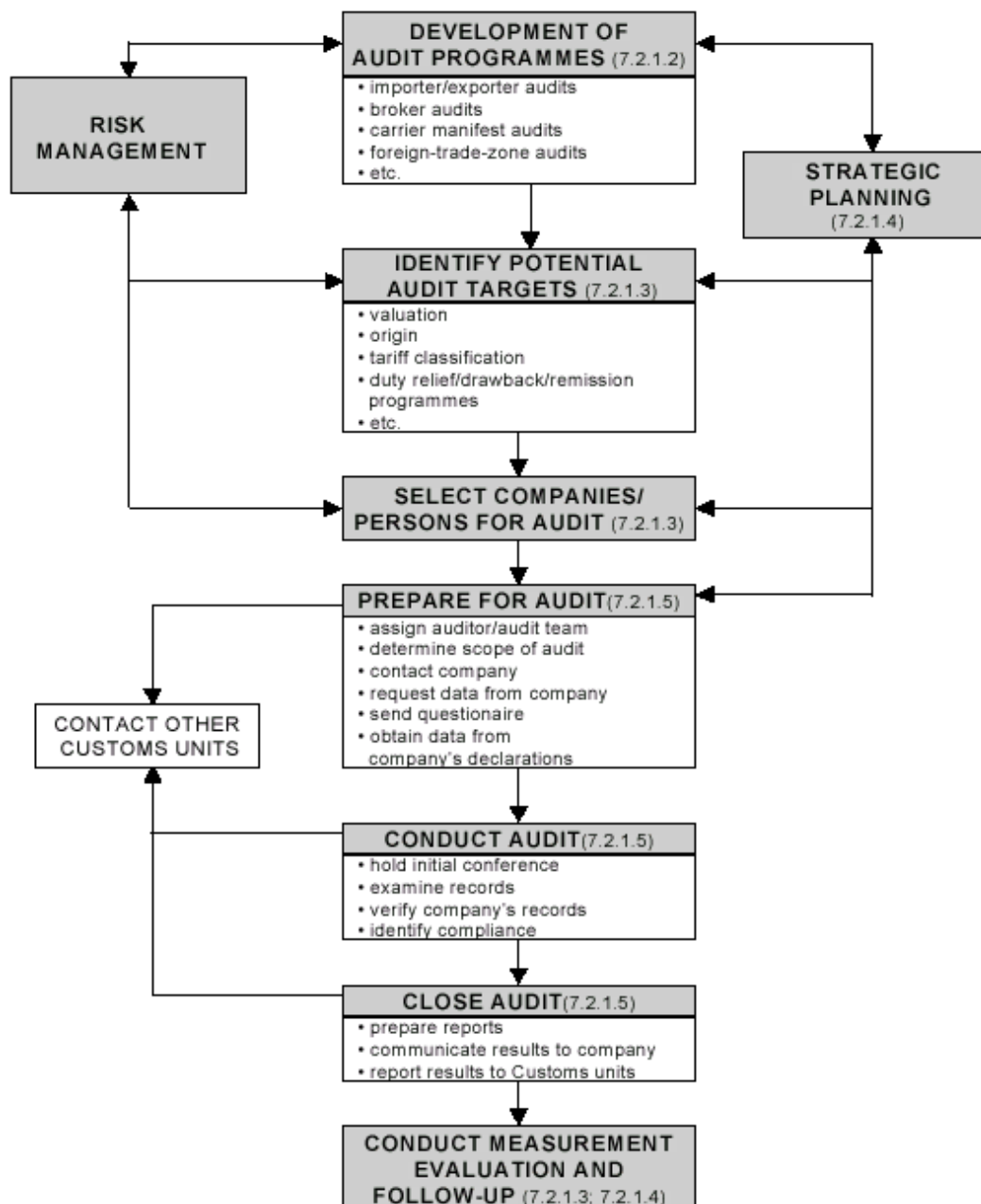
Conclusion

Once a system has been recorded and evaluated and any amendments to improve control have been implemented, it can be expected to perform reliably until the next significant change is undertaken. However periodic audits need to be carried out to confirm that nothing has changed and that the controls which have been built in to the system continue to be administered and adhered to. The use of audit packs (a set of pre-programmed audit tests) can be used to automate this process.

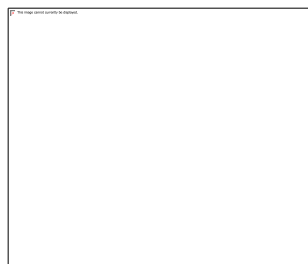
Development Audit

Traders' systems audit can also be of great benefit in the development stage of a new application. In the past the need to implement a new application as soon as possible has meant that suitability for audit has been overlooked or only partially addressed. The consequence of poor suitability means at best inadequate or at worst non-existent controls. Part of the planning cycle of any new application should ensure the inclusion of controls and audit trails. This will enable the auditor or audit team to confirm the processing of data from inception to final recording. It will also enable the auditor or audit team to trace transactions in the reverse direction. If audit considerations are taken into account at the outset of a new system, the subsequent audit and control of that system will be much more effective and trustworthy.

Low Level Scenario of a Post Clearance Audit



Annex C: PCA Manual (inclusive of Trade Project edits)



GOVERNMENT OF PAKISTAN
FEDERAL BOARD OF REVENUE
DIRECTORATE GENERAL OF POST CLEARANCE AUDIT

PAKISTAN CUSTOMS POST CLEARANCE AUDIT MANUAL

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Chapter 1

Introduction

1.1 Mission statement

A mission statement of any organization plays a vital role in performance of its role. The mission statement of Customs Post-Clearance Audit is as under:

“To establish a highly professional Customs audit organization having dedicated and trained human resource to conduct post-clearance audit based on well-defined and professionally accredited procedures with utmost integrity and in trade friendly manner to safeguard Government revenue in respect of customs duties and other levies relating to imports and exports and to act as effective deterrent for improvement of trade compliance.”

1.2 Post Clearance Audit Concept

Post-clearance audit means audit-based Customs control performed subsequent to the release of the cargo from Customs' custody. The purpose of such audits is to verify the accuracy and authenticity of declarations and covers the control of traders' commercial data, business systems, records, books. Such an audit can take place at the premises of the trader or in the concerned Regional Directorate of PCA, and may take into account individual transactions, called "transaction based" audit, or cover full range of imports and/or exports undertaken over a certain period of time, called "company based" audit.

Post-clearance audits can be conducted on a case to case basis focusing on targeted traders, selected on the grounds of risk analysis of the commodity and the trader, or in a planned, regular way, set out in an annual audit program.

Audit-based control methods are normally implemented as part of a Customs modernization programme. In general, modernization programmes introduce a number of reform elements, such as:

- Automated clearance;
- Pre-arrival clearance;
- Use of risk management methods and post-clearance audit;
- Separation of release from clearance.

This manual has accordingly been compiled to articulate the overall framework of the post-clearance audit and set up procedures and guidelines so as to run its business in an effective and efficient manner.

1.3 Benefits and Costs

Introducing post-clearance audit reflects a different approach to Customs control as it has the effect of offering an immediate release of goods or reduced release times. Implementation of post-clearance audit is part of the risk management strategy.

Reduced Release time

The time taken while goods are in Customs custody will be reduced as compared to traditional Customs control, and traders can dispose of their goods promptly upon their arrival in the country.

Saving storage fees

As a direct consequence of the expedite clearance process, storage and warehouse fees together with insurance costs for goods under storage will be reduced.

More efficient control

Post-clearance audits can cover all Customs regimes, i.e. temporary importation, inward processing, duty free zones, end use tariff items, - and therefore enhance Customs control over some of these regimes which could not be checked at the border.

Post-clearance audit allows Customs to change the approach from a purely transaction-based control to a more comprehensive, company-oriented control. Customs audit can benefit from a broader picture of the transactions over a longer period of time. Details for comparison will come from local or national databases and include information from each Customs declaration registered. By comparing prices and tariff headings for identical or similar commodities related to different companies, inconsistencies may indicate fraud.

Similarly, comparison between countries of origin or different suppliers or pattern of intra-company trading may reveal false declarations. If the audit detects an incorrect declaration, the audit officer will ask for the correction of the declaration. This may entail an additional payment of duties or taxes by the trader and even raise Customs' revenues.

Costs

Since post-clearance audit is normally part of an overall Customs modernisation programme, including also automation, direct expenditures related to the post audit will be relatively low. They will mainly result from the implementation of capacity building programmes for Customs management and staff as well as the development of IT programmes to support post-clearance audits.

1.4 Objectives of Audit

The primary objective of the Post-Clearance Audit is to safeguard government revenue against loss and fraud; and to ensure that the international trade complies fully with all Customs legislation as outlined below:

- To ensure that all imports and exports have been properly declared to the Customs.
- That the amounts of custom duties and other duties and taxes have been properly calculated and paid.
- That the national and international trade controls, prohibitions and restrictions (license, quota, CITES, etc.) have been fully observed.
- That the conditions relating to goods imported or exported under notified Customs concessions and special procedures (e.g. EPZ, DTRE, manufacturing bonds, warehousing, transit, transshipment, etc.) have been fully observed and all liabilities relating to concessions and special procedures have been properly discharged.
- That the businesses involved in international trade have fulfilled their legal obligation to keep and maintain records and all supporting documents/correspondence for a period not less than that specified by the law from time to time.
- That the traders, agents and other stakeholders who have been allowed special facilities for speedy clearance of international trade; like Automated Clearance Procedure/Electronic Lane Facility and other special procedures, have complied with the relevant conditions in each case and that there has been no abuse of these facilities.
- To educate the traders, agents and other stakeholders carrying out such business as are regulated by this Act or any other law, directly or indirectly, and help them improve their level of compliance.
- The experience gained during an audit activity shall contribute towards the improvement of the systems and controls at the clearance levels.

1.5 Scope of Post-Clearance Audit

The scope of the Post-Clearance Audit shall be to:

- a) Develop a comprehensive monitoring mechanism to verify the correctness of trade related declarations;
- b) Detect and investigate commercial and trade-related frauds and propose measures to prevent its occurrence;
- c) Assist the Federal Board of Revenue to evolve, develop and update systems, procedures and organizational structures meant to scrutinize and ensure compliance of the trade with the national trade laws, procedures and controls; and
- d) The business understanding and industry knowledge in which the traders operate and development of risk assessment methodologies for various operations and activities of traders;
- e) The review of the accuracy and reliability of records and financial reports of traders to ensure that all imports and exports have been properly declared to the Customs;
- f) The testing of transactions at various offices of traders to ascertain that the amount of customs duties, other duties and taxes have been properly calculated and duly paid;
The evaluation of adherence to legal and regulatory requirements by the traders, including national and international trade controls, concessions and special procedures, maintenance of records and supporting documents;
- g) The evaluation of effectiveness of existing policies and procedures of PCA and give recommendations for improvements in the light of experience and new audit methodologies;
- h) Identifying opportunities for cost savings and making recommendations for improving cost efficiencies within PCA;
- i) Examining that resources for the audit are acquired economically, used efficiently and safeguarded adequately;
- j) The carrying-out of special investigations relating to fiscal frauds.

1.6 Audit Process

Customs audit is a process of verifying the compliance of the business with customs legislation through an examination of accounts and other records of the trader. Where a business is not complying fully with the customs requirements, the Audit Team will bring the matter to the attention of the management of the business and seek to resolve the issues. Such resolution may involve the payment of unpaid duties and taxes or the refund of overpaid duties and taxes and/or changes in the accounting or internal control procedures which do not cater to the customs' requirements.

The auditors should develop an understanding of the internal control and accounting structures, including records and documentation procedures, within an organization, and use these controls and accounting structures to verify compliance with the customs' requirements. In the event where audit teams identify shortcomings in a trader's internal control systems, records, book keeping, accounts, etc; the flaws shall be indicated in the Audit Report and necessary steps shall be recommended to rectify the situation.

The audit life cycle starts with the selection of business entities involved in international trade for audit and ends with the completion of the final audit report. If during the audit process, any non payments or short payments are detected, the same shall be brought to the attention of the trader as per procedure laid down in this Audit Manual. In the event of non payment, the matter should be referred to the respective Collectorates along with a contravention report. In case of overpayments detected during the process of audit, the Audit Team will report the matter to the trader as part of the Audit Report who may file a refund claim with the respective Collectorates.

1.7 Purpose of Audit Manual

The purpose of this Audit Manual is to provide PCA auditors with a set of modern auditing standards, concepts, techniques, and quality assurance arrangements that are consistent with international standards, for auditing entities in the Government of Pakistan. The Manual covers the entire audit cycle from planning to follow up.

This Audit Manual lays out what is expected of the auditors of the Directorate General of PCA. It provides the standards by which the audits are to be conducted. It provides guidance with regard to the methods and approaches to audit that can be applied by the auditors in carrying out their duties.

This Audit Manual is only for internal use and guidance of Directorate General of PCA.

1.8 Distribution and Updation of Manual

This Audit Manual shall be available to all auditors and officers of Directorate General of PCA and any other user authorized by Director General of PCA. This Audit Manual is a living document which will continue to be improved and updated in a systematic manner. Accordingly, the Additional Directors shall be responsible for ensuring updation of this Manual with the approval of Director General of PCA in the light of:

- i. Policy/legislative changes effecting Post Clearance Audit
- ii. Changes required due to ongoing improvements and developments in audit procedures and techniques.

Chapter 2

Charter of Taxpayer Rights & Auditor's Code of Conduct

2.1 Introduction

The Charter of Rights is a statement of the taxpayer's rights and an affirmation by the Federal Board of Revenue of its determination to ensure that these rights are duly protected. A high degree of co-operation from taxpayers is vitally important for the smooth and efficient operation of the post-clearance audit system. The taxpayers are more likely to co-operate if they believed that their rights would be respected. The Auditors, in common with all Revenue Officials, are, therefore, required to discharge their duties within the framework of the Charter. A copy of the Charter of Rights should be enclosed with all letters notifying a trader of an audit.

2.2 Charter of Taxpayer's Rights

The person under audit will have the following rights during the audit:

- a) It will be the right of taxpayer to know the identification/authorization of auditor's visiting his premises.
- b) To seek written authority from the auditor to intimate the taxpayer about auditor's purpose of the visit.
- c) It will be taxpayer's right that his business commitments are recognised and, therefore, be flexible in scheduling follow up visits and setting time limits for the supply of information/documents.
- d) To be dealt with even-handedly and professionally in speech and behavior. Any deficiency in the record keeping should be brought to the attention of the trader in a polite manner in the spirit of constructive criticism.
- e) The taxpayers shall be informed about their right to file internal review with the Additional Collector (PCA) against the opinion on any adjustments sought by the Audit Team.

2.3 Code of Conduct for Auditors

The auditors will be required to strictly observe the following Code of Conduct:

- a) Objectivity
 - An auditor should be fair and should not allow prejudice or bias, conflict of interest or influence of others to override objectivity.
- b) Professional due care
 - An auditor should perform professional services with due care, competence and diligence and has a continuing duty to maintain professional knowledge and skill at a level required to ensure that traders receive the advantage of competent professional service based on up-to-date developments in practice, legislation and techniques.
- c) Courtesy and Consideration
 - To produce official identification/authorization on all their visits to a trader's premises.
 - To explain to the trader the purpose of the visit.
 - To outline to the trader his/her rights and entitlements.
 - To recognize the trader's business commitments and, therefore, be flexible in scheduling follow up visits and setting time limits for the supply of additional information/documents.
 - To adopt an even-handed and professional approach in speech and behavior and maintain that approach even where a trader is non-cooperative or apparently

unwilling to help or support the Audit Team. It must be recognized that a trader may sometimes feel a sense of grievance for no apparent reasons; or may feel resentment at being selected for audit.

- To avoid making insensitive comments on the standard of record keeping and accounting procedures maintained by the organization. Any deficiency in the record keeping should be brought to the attention of the trader in a polite manner in the spirit of constructive criticism.

d) Presumption of Honesty

- The Customs Auditors carry out audits in order to verify compliance with the Customs procedures. In so doing, Auditors will examine books, records, Goods Declarations and other documents of the business activity and ask relevant questions in relation to these documents. In line with the Charter of Rights, traders are to be given the benefit of presumption of honesty unless there is concrete information to the contrary.

e) Integrity and Impartiality

- The auditors shall perform their work with honesty, diligence and responsibility. They must not use their position to gain any advantage in their personal affairs. The Audit Management Unit (AMU) will ensure that selection of traders for audit is made on an impartial and objective basis free from discrimination and harassment. The Customs Auditors will seek to collect only the correct amount of duties and taxes using sound professional judgment. Where it comes to the notice of the auditor that duties and taxes have been overpaid, or any exemption has not been claimed, the same shall be brought to the attention of the trader.

f) Hospitality, gifts and favours

- The auditors shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. The acceptance of hospitality, gifts or favours of any kind from a trader or agent may be seen as an inducement that leads to a perceived obligation (however slight) to a trader or agent. Therefore, auditors must be very careful not to accept any gift or service which might have the effect of compromising their integrity or may weaken their official position.

g) Privacy and Confidentiality

- During the course of a trader's audit, the auditors are likely to acquire considerable information relating to the trader's business activities. The auditors must respect the confidentiality of the information acquired during the audit. It is the policy of the Federal Board of Revenue to treat personal and business information provided by traders with strict confidence. The auditors shall neither disclose the information unauthorizedly nor use it for any personal gains or in any manner that would be contrary to the law or detrimental to the legitimate business activities of the traders. The auditors are required to exercise due professional care to ensure the security of:
 - Trader's books, records, accounts, etc.
 - Official papers.
 - Commercial or other trade related or private information in their possession in relation to the enterprise being audited, e.g. process of manufacturing, sources of import/export, etc.
- The auditors need to be aware of the provisions of Section 155H, whereby the breach of the confidentiality is an offence punishable under section 156 (1)(100) of the Customs Act, 1969.

2.4 Internal Review

The traders shall be informed about their right to file internal review with the Additional Collector (PCA) against the opinion on any adjustments sought by the Audit Team. The Additional Collector (PCA) may hear the trader (or his representative) and amend the report of the audit team, if deemed necessary. The procedures for seeking such a review shall be communicated to the traders. The traders shall also be informed about the procedures that Customs shall follow in case there was a dispute between the PCA and the trader about the liabilities of the latter.

2.5 Compliance Costs

Auditors will be mindful of the extra costs which a Customs audit may cause to a trader. The trader's human as well as financial resources and precious time are likely to be consumed in collecting records and arranging them for audit. With a view to save the trader from extra burden as far as possible, the trader shall generally be notified in advance about the trading period to be audited and the supporting documents required for the purpose of audit.

Chapter 3

Legislation for PCA Directorate General and the Powers of Officers of PCA

3.1 Legislation

The formation of Directorate General of Post-Clearance Audit, Pakistan Customs, Islamabad has been notified through Board's notification SRO No. 496(I)/2009 dated 13.06.2009 to provide the legislative basis for carrying out Customs Post-Clearance Audit. Similarly, two Directorates namely the Directorate Post-Clearance Audit (South), Karachi and the Directorate of Post-Clearance Audit (North), Lahore vide Board's notifications SRO No. 501(I)/2009 dated 13.06.2009 and SRO No. 502(I)/2009 dated 13.06.2009 respectively to enable the Directorate General of PCA to accomplish its mandate effectively and smoothly.

3.2 Powers and Authority of Officers of the PCA

The officers of PCA shall:

- a) Have access to and examine all such records and goods as are required for the purposes of verification and compliance of Customs, Sales Tax, Income Tax & Federal Excise and other trade related laws in connection with Customs transactions of traders;
- b) Apart from the prescribed Customs records, the powers of the Audit Officers would enable them to require access and examine such other business records as may be deemed appropriate, including warehousing records, manufacturing records and financial statements;
- c) Have the power to search any premises with the permission of the appropriate officer of PCA to have access to any records or goods in accordance with the legislative powers;
- d) Have the power to require any third party including a banking or financial institutions to produce records relating to the trader being audited;
- e) The auditors and other officers of PCA have been conferred the powers under various sections of the Customs Act, 1969 and Sales Tax Act, 1990 under the Notifications issued by the Board in this regard;
- f) The Directorate General of PCA will also ensure that I&P staff of PCA Directorates is also trained in Customs allied laws like Criminal Procedure Code, 1898 etc.;
- g) Have unrestricted access to all departments, offices, activities, records, information, properties and personnel, relevant to the performance of audit function;
- h) Determine scope of work and apply the techniques required to accomplish audit objectives;
- i) Obtain the necessary assistance of personnel in various departments/offices where they perform audits;
- j) Obtain assistance of specialists/professionals where considered necessary from within or outside PCA.

3.3 Responsibilities of officers of PCA

The Directorate General of PCA has the responsibility to:

- Formulate annual audit plan in consultation with CO and Regional Directorates.
- Implement the annual audit plan, including any special tasks or projects assigned by the FBR.
- Maintain a requisite professional audit staff strength with sufficient knowledge, skills, experience, and professional qualifications to meet the requirements of this Manual.
- Issue periodic reports on a timely basis to the FBR summarizing results of audit activities.
- Keep the FBR informed of emerging trends and developments in auditing practices and give recommendations for necessary revisions in Audit Manual.
- To apprise the FBR about progress of investigations of significant cases of fiscal frauds.

The Regional Directors and staff of PCA have the responsibility to:

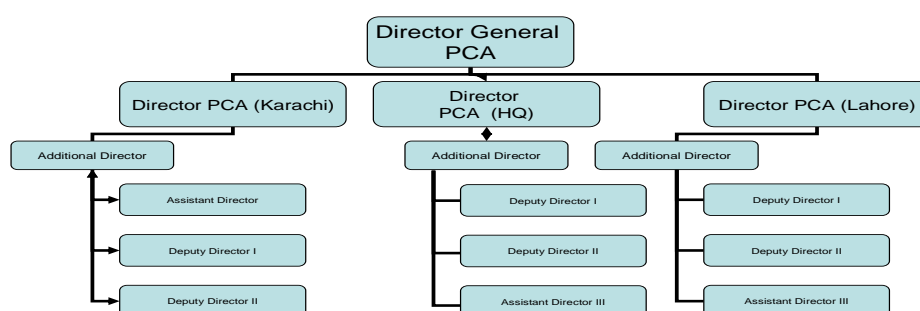
- Follow the guidelines and methodology given in the Audit Manual.
- Exercise due professional care in carrying out audit assignments.
- Maintain integrity and objectivity.

3.4 Accountability

- i. The Director General shall be accountable to Chairman, FBR.
- ii. The Director of PCA, in the discharge of his duties, shall be accountable to:
 - Report significant issues of malpractice identified during the audit together with action plans to Director General PCA.
 - Coordinate with Additional Directors and Deputy/Assistant Directors of PCA to examine the strength and weaknesses of internal controls and monitoring functions of PCA Directorate.
 - The performance of the Director PCA will be evaluated by Director General PCA.
 - The regional Director of PCA will evaluate the performance of Additional Directors and Deputy/Assistant Directors working under him; or
 - The members of audit teams will be accountable to the In-charge Deputy/Assistant Director of audit teams for their performance, professional conduct and integrity.

Structure and Functions of the Directorate General of Post-Clearance Audit (PCA)

ORGANIZATIONAL STRUCTURE OF PCA



A Directorate General of PCA has been established headed by a Director General. The Director General shall report to Chairman, FBR. The Director General shall be assisted by three Directors i.e. Director PCA (North) Lahore, Director PCA (South), Karachi and Director PCA (Hqrs.) Islamabad.

The Directorate (HQ) would be headed by a Director who will assist the Director General, PCA in overseeing the functions of the Directorate General. The Directorate (HQ) would also coordinate and liaise with the Directorate General of Valuation, the Directorate General of Intelligence and Investigation, the Audit Wing of Federal Board of Revenue and other functionaries/stakeholders to ensure the achievement of desired results for the Federal Board of Revenue. This central office is generally responsible for policy and procedures, risk management, and automated system modules of the post-clearance audit. The major functions of the Directorate (HQ) include:

- #### 4.4 Use of Risk Management System by Directorate(HQ) for audit selection

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4.5 Audit Performance and Monitoring by Directorate(HQ)

Directorate(HQ) shall monitor the performance of audit teams of both regional Directorates. Regular appraisals of output shall be done.

4.6 Audit Management

Directorate (HQ) shall be responsible for generating work orders for detailed audits using Risk Management System. As soon as a work order is issued it will be forwarded to the respective Directorate.

4.7 Audit Management Unit (AMU)

It is a part of the Directorate of PCA (HQ), consisting of such number of Additional Directors, Deputy/Assistant Directors, Cost & Management Accountant/Chartered Accountant as the Director General PCA may, from time to time specify.

4.7.1 The role of AMU

This unit will perform the following functions in relation to audit:

- Set and monitor Audit Policy.
- Liaise with the Directorates of PCA with a view to ensuring a consistent policy approach to audit.
- Set overall annual audit programme on the basis of previous year's results. However, the work orders to the PCA units would be issued on quarterly basis.
- Ensure consistency of target setting and risk analysis.
- Monitor national targets.
- Collate returns from the Collectorates.
- Compile the annual Audit Report.
- Liaise with other Revenue bodies and Government Departments on points of mutual interest and hold discussions with a view to establishing greater effectiveness in our programmes.
- Liaise with PRAL/ automated solution providers on system operation and enhancements.
- Co-ordinate training requirements.
- Organise regular workshops for all audit personnel.
- Organize regular meetings between regional Directors and the Director, Audit Management Unit with a view to enhancing communications, feedback and identifying future requirements.
- Develop risk analysis techniques to support the effective targeting of audit cases.
- Implement a system for obtaining feedback from all Audit units and disseminate it nationally.

4.8 Directorates of Post-Clearance Audit, Karachi and Lahore

- There will be two Directorates of post-clearance audit, one each at Karachi and Lahore. In case of the goods imported into or exported from Pakistan and cleared from any of the Customs Collectorate in Karachi, Hyderabad, Gawadar and Quetta, the functions of post-clearance audit shall be performed by the Director, Post-Clearance Audit, Karachi.

In case of the goods imported into or exported from Pakistan and cleared from any of the Customs Collectorates in Lahore, Rawalpindi, Multan, Faisalabad, Sialkot (Sambrial) and Peshawar, the functions of post-clearance audit shall be performed by the Director, Post-Clearance Audit, Lahore.

- Where a trader has imported into or exported from Pakistan any goods and cleared them from more than one Customs Collectorate falling in the jurisdiction of more than one Directorate of Post-Clearance Audit, the Board or the Director General, Post-Clearance Audit, may assign the audit of the trader to any Directorate of Post-Clearance Audit, as deemed appropriate.

- Where a trader has imported into or exported from Pakistan any goods and cleared them from a Customs Collectorate other than where his Registered Office or Head Office is located, the Board or the Director General, Post-Clearance Audit may assign the audit of the trader; with his consent, to the Directorate of Post-Clearance Audit in whose jurisdiction the Registered Office or Head Office of the trader is located.
- The relevant Director, Post-Clearance Audit or an officer authorized by him will allocate the work orders assigned by the CO, to the PCA officers for conducting detailed audit, supervise and monitor progress of the audit cases and take all necessary measures to ensure that the audit activities are conducted fairly, transparently and in accordance with the laws and the prescribed procedures as are laid down in the this Manual.
- The Officers/Audit teams will review the declarations and supporting documents, conduct audit of the business and prepare the report in the manner as provided in the Manual. The PCA officers will record all the details of the audit proceedings, step by step progress, and results of their audit, in the automated system of the PCA.
- Any Collector of Customs or the Director of the Post-Clearance Audit may also identify cases and sectors where it may be deemed necessary to carry out post-clearance audit as a special case. All cases so identified shall be routed for action through the CO.

4.9 Relationship between Directorate (HQ) and Regional Directorates

The process of audit by the PCA Unit would start with the allocation of audit cases by the Directorate (HQ), and end with the completion of the follow up action after the audit including legal proceedings (i.e. adjudication, appeals etc) by the respective Collectorates following the contravention reports; and dispute resolution wherever required. The PCA Unit would be required to perform all stages of audit and record the progress/ outcomes on the web-based computer system maintained by the Directorate (HQ). Transaction based or special investigative audits may be initiated by the concerned regional Directorate with the permission of Director General PCA. The progress of such audits shall be reported to Directorate of PCA (HQ).

The Directorate (HQ) would keep track of the audit cases assigned to the Audit Units. Besides overseeing the progress of such cases, it would also interactively improve the Risk Management System, the operational manuals, the computer system and the capability of the audit teams of the PCA Units by assisting the training wing in the development of the required training material and programmes.

4.10 Automated System for PCA

The Directorate General of Post-Clearance Audit would conduct the entire range of its activities through an automated system. This system has multiple components/modules and provides functionality for various tasks as outlined below:

4.10.1 Historic Database System (HDS)

With the introduction of online declaration, the traditional “hard copy” of the Goods Declaration (GD) will not be available in the record as heretofore. Therefore, it was deemed necessary to develop an information database called the Historic Database System (HDS). The HDS would contain the GD data for a period up to five years (i.e. the current year and the four previous calendar years). This database has record of all types of GDs such as ‘home consumption’, ‘warehousing’, and ‘export’, ‘transshipment’ and ‘transit’. Information about duty draw back claims and refund claims is also available in the HDS.

4.10.2 Trader Profile Record (TPR)

This sub-system presently contain some basic information about the traders such as NTN details, STRN details, traders' profiles as available in the PACCS, information regarding contravention reports, recoveries, refund and drawback etc. as available in different database of the Federal Board of Revenue. This profile record will be further developed on receipt of additional information through the process of audit and, over a period, complete and comprehensive profiles of different traders would be available in TPR.

4.10.3. Risk Management System (RMS)

This is the core sub-system for the Audit Management Unit. It allows the analysis of risks using HDS and other databases such as the CVMS system used by the Customs Valuation Department. This sub-system will help in the development of risk parameters and subsequently the automated selection of cases for audit.

4.10.4 Audit Performance & Reporting System (APRS)

The entire set of activities starting with allocation of audit cases to the audit teams of the regional directorates, to the finalization of audit report and the consequent recovery activities (wherever warranted) would be handled through the APRS. This component would help in generating pre-formatted notices, reporting of progress in each case and the case management activities.

4.10.5 Management Information System (MIS)

This sub-system would produce a variety of reports for the management, the Federal Board of Revenue and other stakeholders. These reports will include the analysis of import/export clearance activities as well as progress and performance of the Post-Clearance Audit.

4.11 Investigation & Prosecution Division

There shall be an investigation and prosecution division in both regional Directorates to be headed by a Deputy/Assistant Director to deal with cases of fiscal fraud and investigative audits.

4.12 Reporting Lines

- i. The Director General PCA will report to the Chairman, FBR.
- ii. The Directors of PCA will report to the Director General PCA.
- iii. The Additional Directors of PCA will report to their respective Directors PCA.
- iv. The Deputy/Assistant Directors of PCA will report to their respective Additional Directors PCA.
- v. Member of audit teams will report to the Deputy/Assistant Director, in-charge of audit teams.

4.13 Training of Audit Staff

Periodic trainings of audit staff shall be arranged to develop their expertise in audit techniques, IT skills, Customs laws & Allied laws, TNA and Computer Assisted Audits(CATS).

4.14 Other Duties of the Audit Unit

The primary role of the PCA Unit is audit of the traders. However, they would be required to perform some other official activities mentioned hereunder:

- i. Statistical monitoring of import and export trends;
- ii. Research and proposals for updation of HDS;
- iii. Updation of TPR;
- iv. Conducting of Seminars and Workshops for education of traders;
- v. Internal staff training in collaboration with Directorate General of Training and Research and other renowned training institute;
- vi. Any other work assigned by the Director General or concerned Director.

4.15 Permanent Staff for PCA

PCA should be staffed, on a permanent basis, with personnel with expertise in audit methods. In addition, personnel should have classification and valuation experience across economic sectors that experience high trade volumes (e.g., chemicals and textiles). The Directorate General of PCA (Islamabad) is responsible for the recruitment of permanent staff.

Chapter 5

Types of Audit and Selection of Cases for Audit

5.1 Types of Audit

The Directorate General of PCA shall conduct the following types of audit:

- i. Detailed work order based audits (**Entity Based**); these audits are assigned by AMU under a proper audit schedule. Selections for audit are based on Risk Management System.
- ii. Desk audit or transaction based audits; these audits are based on information or duty payment trends of traders or commodities.
- iii. Investigative audits; these audits are conducted in cases of fiscal frauds and may lead to prosecution of traders.

5.2 Automated Selection of Cases by the AMU

The Audit Management Unit (AMU) will be responsible for the selection and allocation of cases for Audit to the Regional Directorates of the PCA. The case selection would be performed through the application of risk criteria in an automated environment. However, the Regional Directorates of the PCA may propose the audit of certain traders based on local intelligence or the information gathered during audit of other traders. In such cases, a written proposal incorporating the reasons for case selection would be forwarded to the Director (Headquarters), who may issue a work order for audit to the relevant Directorate.

5.3 Selection Tools

5.3.1 Historic Database System

The Historic Database System (HDS) will be available to the AMU to select traders based on known risk factors. The HDS reports facility will help in generating reports listing importers of specific commodities, from specific origins and subject to specific procedure codes. This facility will enable the AMU to retrieve data of the targeted products, by commodity code, origin, period, and value. The output will contain a list of GD CRN/Machine numbers and Single Unique Identification (SUI) Numbers. Information in relation to the traders identified by the HDS will also be available from the Trader Profile Record (TPR) system once it is developed.

The HDS will also allow the AMU to call pre-structured reports on most aspects of import and export declarations over a given period for a specific trader. This information will be of great benefit while targeting and selecting traders for audit. It will serve as the main tool in creating a trader profile. In addition to the specific trader reports, this system will contain a number of restricted management reports which will help in the development of parameters for automated selection for audit. These reports may include:

- **Top statistical value by commodity code:** It highlights the commodity codes with the highest statistical values.
- **Top duty by importer's Unique Identification Number:** It lists the traders by UIN who have paid the highest duty. This report will also highlight the duty type.
- **Top duty by commodity code:** It highlights the commodity codes on which the highest amount of duty was paid.

Due to the heavy drain on computer resources involved in producing these reports, they will be run periodically and used by the AMU as a basis for quarterly case selection and assignment to the Regional Directorates of the PCA.

5.4 Selection of Traders for Audit

Risk profiles should be used to select persons/companies for audit. Selection criteria for audit candidates should incorporate trade trends, evaluated intelligence, and high risk priority areas. Selection criteria may include:

- Past history of the company
- Type of commodity industry
- Volume and value of imports/exports
- Referral information from other Customs units (e.g., investigators, physical control officers, commodity specialists and other revenue agencies)
- Origin of goods
- Potential for duty/revenue recovery
- Risk of revenue loss
- Government program priorities

Audit selection is performed at the local level, based on risk ratings, data from other authorities, and auditor knowledge of entities and traders. A national database will be established and maintained for this purpose, and will contain risk rating parameters for each trader based on compliance record, type of business, volume of imports, and total duty payments. Information contained in the filed audit will be used to evaluate the accuracy of the risk rating.

Depending on the profile of the auditee and its business (i.e., type of business, goods, and revenue involved) the audit may be conducted on a continuous, cyclical, or occasional basis. Frequency of audits should be based on risk assessment results and identified compliance.

5.4.1 Post Clearance Assistance System (PCAS)

In reference to the guidelines under 5.4., a Post Clearance Assistance System (PCAS) for trader profiling will be established; this will enable PCA to make effective audit selections. The requisite features of PCAS include:

- I. Incorporation of PCAS into existing PCA software
- II. Internal users (PCA authorized officials) and external users (authorized officials of other formations of FBR)
- III. External users shall only have access to PCAS in PCA software
- IV. PCAS will identify traders based on NTNs
- V. PCAS menu shall contain the following trader-wise data:
 - a. Summary of transactions
 - Import/export value (complete)
 - Duty & taxes paid (complete)
 - Exemptions claimed (SRO No. wise)
 - Description/PCT of goods (major items>Rs 100,000/-)
 - Mode of payment (L/C, without L/C, TT) (GD wise)
 - b. Trader address (and indication of whether physical verification was performed)
 - Head office address and phone numbers
 - Manufacturing premises address and phone numbers
 - c. Director/owner profile
 - Name, NIC No.
 - Home address and phone numbers
 - d. Past contraventions
 - PCA Contraventions
 - Contraventions made by other formations
 - e. Previous audits
 - PCA audits

- Audits performed by other formations of FBR
- f. Information slips
 - Information supplied to PCA by other FBR-filed formations with respect to a trader (general, specific)
- g. Sales tax profiling
 - Sales tax returns data
 - Blacklisted units data

There are five pools from which traders can be selected for audit, i.e. regular traders, controlled traders, selection by sector/commodity, information based selection and random selection.

5.4.1 Regular Traders

They are traders already identified in each region through their revenue record and compliance history. Such information would be enhanced with local knowledge, departmental alerts, local newspapers, etc. However, even with the knowledge of a company's existing record, the AMU will have to carry out its own research to create a case profile that may form the basis of an audit. This research can be carried out by compiling information from different departmental /external sources to obtain a "Customs picture" or case profile of the company that can be uploaded in the TPR system. The selection criteria in the case of regular traders depend on the risk associated with a trader's credibility and complexity of transactions.

5.4.2 Sector/Commodity Selection

Where traders are not initially known (i.e. TPR is not yet available), audit cases can be selected on the basis of the commodity/sector. The criteria for selection of commodity/sector can again be by means of local knowledge, intelligence alerts, or by simply selecting 'sensitive' commodities from the Customs Tariff. When the commodity is selected the HDS can then be searched to identify and select traders for audit. The selection criteria in the case of sector/commodity depend on the risk associated with a particular sector/commodity (e.g. steel coils, arms & ammunition, paper etc.)

5.4.3 Controlled Traders

The term Controlled Traders means the traders who make concessional/exemptions imports/exports against the fulfillment of certain conditions to gain the benefits of waiver of duty/taxes. There are indicative frequencies set out below for the audit of controlled traders. A list of Controlled Traders in each region shall be maintained by the Audit Management Unit of the Directorate (HQ). These frequencies of audit may be relaxed or increased in the case of particular businesses where the results of audit indicate either consistent compliance or consistent risk.

5.4.4 Random Selection

This is merely the selection of a trader regardless of sector, intelligence, local knowledge, etc. for no other reason than that an audit is warranted. A small percentage, possibly 1% or 2% of all audits should be selected by this means. Random selection can be a valuable tool for gaining information that may not otherwise come to the notice of the Directorate General of PCA and can also assist in improving any risk criteria already being applied by Directorate (HQ).

5.5 Risk Criteria

Certain risk criteria will be applied to select cases for audit by the Directorate (HQ). These guidelines will assist in the identification of import/export procedures, goods, and countries of origin which present particular risks.

The principal risk categories to be considered in relation to trade are value, origin, classification and procedure (i.e. restrictions, concessions and exemption). Any one of aforesaid information, if not correctly declared on a GD, can reduce the liability relating to payment of duty and taxes and/or

circumvent import/export restrictions, or grant preferences where same were not admissible. Auditors should pay particular attention to the impact of these factors on payment of duties and taxes when preparing case profiles (pre-audit stage).

- **Origin:** Correct declaration of origin has a deep impact with regards to valuation, import restrictions, preferential trade agreements, the applicability of antidumping duty, health controls etc. It is, therefore, vitally important to ensure that origin of the goods is correctly declared in the Goods Declarations filed by the traders.
- **Classification:** Commodity code (HS code) has a direct bearing on duties and taxes and incorrect declaration can greatly reduce the liability on that account and can also circumvent import restrictions, etc.
- **Valuation:** Wrong declaration of value results in incorrect payment of duties and taxes. Due attention should be paid to the invoice value, currency, the delivery terms and whether freight, transport, insurance costs have been included while determining liabilities of the traders with regard to payment of duties and taxes.
- **Procedure Code:** Entering goods to a regime (exemption, concession, etc.) to which they are not entitled can also reduce liability to duty/taxes and avoid import/export restrictions and/or undue payments of duty drawbacks/refunds.

It may be mentioned here that a combination of any one of the above acts of omission or commission could double the risk and reduce the level of compliance.

The identification of Customs risks often lies in the identification of imports of apparently low duty, low risk nature whereas these may in fact be a substitution for higher duty items. For example, goods subject to Anti- Dumping Duty coming from one country may be correctly classified but shown as originating from another origin; or higher duty goods may be declared under HS code which carries a lower rate of duty.

The HDS may be used to identify regular importers of commodities attracting a lower rate of duty, and an audit shall be conducted which will, among other things, verify whether the classification, origin and value have been correctly declared.

The automated parameters used for the selection of cases for audit would comprise all of the above factors and the cases assigned to the PCA Units would include traders selected on various parameters.

5.6 Results of Checks

A close examination of the results of the audit conducted by the local audit units will assist the Directorate (HQ) in the identification of possible risk factors/areas. This feedback will indicate the types of discrepancies that occur in a pre-clearance environment in the areas of valuation, origin, classification, freight, documentations meant for concessions and preferences, etc. Such information could be of great assistance for subsequent improvement in selection of parameters in the area of Risk Management. They may also be of assistance in identifying specific traders for audit. For example, the constant inclusion of a certain trader in the reports generated from such parameters would be a strong indicator of his/her compliance level.

The AMU will also circulate results of audits among the regional Directorates which may highlight certain trends in the trade, origins, products, etc. where non compliance has been discovered. This information would benefit the audit units in preparation, planning and other audit activities.

5.7 Periodic visits to Customs Clearing Agents/ Brokers

The PCA framework also envisages periodic audit of Customs Clearing Agents and other licensed facilitators to ensure that such brokers are also complying with the Customs regulations. The details of such Audit programme will be formalized in the second phase of the PCA launch. However, some mechanics involved are given below.

As part of their responsibilities, the audit teams would periodically visit the Customs Clearance Agents licensed by the Customs Collectorates in their area of jurisdiction. These visits are meant to ensure that the agents are complying with all the relevant conditions as provided in the Customs Act and rules and orders issued thereunder, particularly the Licensing Rules. This will also provide an opportunity to the Directorates to examine Goods Declarations against supporting documents available with the brokers for subsequent audit of the traders. On the other hand, if it is discovered as a result of audits of the traders that a particular Customs Clearance Agent is involved in acts of incorrect declarations, either by way of omission or commission, then this agent should also be visited with a view to rectify the errors and secure future compliance. Some of the most common errors on Goods Declarations are mentioned below:

- Either scant, incomplete or ambiguously worded details with regard to description, specifications, origin etc. are provided in the GD vis-à-vis invoice, packing list, letter of credit and other import documents.
 - Freight conditions are either not mentioned or incorrectly mentioned. (e.g. price shown as FOB on invoice whereas the same as CIF on GD).
 - Freight charges mentioned in GDs are too low when compared with the weight of the consignment and the distance from port of origin to the port of delivery.
 - Incorrect exchange rate are applied in the GDs; and
 - Incorrect currency is mentioned on GD contrary to that appearing on the invoice.
- Any consistent patterns of mis-declaration may be noted as a risk indicator and used to select traders for audit.

5.8 Case Profile

The suggestions outlined above will assist the Audit Management Unit (AMU) in developing the parameters for the selection of traders suitable for an audit on the basis of Risks. To determine whether a trader is suitable for audit, an outline case profile would be compiled using the information available on the HDS and TPR. These reports will allow the AMU to complete a “Customs picture” or a case profile of the trader.

This HDS profile is a summary of the trader’s Customs related activities in order to determine if the case is sufficiently “interesting” for selection of the trader for audit. A more comprehensive profile, known as the Trader Profile Record (TPR) will be completed as part of the preparation of selected cases. The “Trader” group of reports will probably be the most effective instrument in creating the case profile, as the information available varies from a list of trader GDs, listing of non-duty imports, to a detailed breakdown of data relating to an analysis of commodity codes by rate of duty, origin and procedure code, for a specific trader and for a specific period.

It is envisaged that the automated system will generally produce twice, or maybe even three times, the number of audit cases as required for the quarterly audit programme. The selection can be narrowed down when additional filters, risk factors and TPR are applied. A trader, who may appear to present a risk on the basis of one set of parameters may, when further analysis is carried out, not rank high enough on the overall criteria and may be deferred to the next audit programme.

The application of all risk criteria to case profiles will produce a list of traders suitable for audit.

5.9 Procedure Code

Following is the procedure code in its logical sequence which should be followed for the identification of traders for Audit on the basis of sector/commodities, controlled traders, regular traders or random audit.

- Origin of the goods
- Value of the goods
- HDS
- Traders Name & Traders' Sales Tax Registration No./NTN No.
- Trader identified
- List of GDs
- HDS displays
- Creation of case profile
- Apply suggested Risk Criteria
- Audit programme

5.10 Frequency of Audits

It will be the objective of audit selection system to conduct audit of every regular/controlled trader at least once in five years. This frequency is however subject to various parameters contained in the Risk Management System based on various risk criteria developed with the approval and under the supervision of Director General PCA.

Chapter 6

The Audit Programme

6.1 Planning

Effective planning for audit is vitally important to ensure that the objectives set out in Chapter 1 of this Manual are achieved. It is, therefore, necessary to ensure that:

Optimum use of a scarce resource:

The manpower and other resources available for conducting audit are limited and should be allocated on the basis of risk to produce most favourable results.

Minimal disruption of trade:

Presently, multiple departments of the Federal Board of Revenue are involved in audits of the traders. It is, therefore, crucial that the Directorate General of PCA liaise closely with these departments to avoid overlapping or closely consecutive visits.

Uniformity of standards:

It is strongly desired that only trained staff should conduct post-clearance audit.

6.2 Audit Programme

After the traders have been selected for audit by the Directorate (HQ) as described in Chapter 5, it will be allocated to the Audit Team of the respective Directorate through a Work Order or transaction based audit permission in case of desk audits. The incharge Deputy/Assistant Director of audit team of the respective Directorate will, in consultation with his/her audit team(s), draw up an audit programme for the audits assigned on quarterly basis. The planning of each quarterly audit programme should, as far as possible, take into account all aspects of the assignment. Sufficient time should be allowed for each audit to allow a full and thorough examination with regard to the risks presented.

The Deputy/Assistant Director, incharge of audit team will provide the AMU with a copy of the Quarterly Audit Programme through his Director.

6.3 Duration of Audits

The Audit Programme should plan in outline the anticipated time required for each audit. This will be based on an initial analysis of the Customs traffic of the business as recorded on the HDS. It is realized that, in practice, many audits will not be completed in the allocated timescale and Officers are reminded that quality is more important than quantity. Experience will gradually allow for increased accuracy in the planning of audits.

6.4 Staffing on Audits

The planning of the audit programme will include a decision as to the number of officials required to conduct an audit. In case of small to medium sized traders this will generally be two experienced officials whereas in larger cases or where there are complex issues involved a team of four officials may be needed.

6.5 Carrying out an Audit

The Deputy/Assistant Director, incharge of audit team is to use discretion in allocating a staffing resource to audits with overall efficiency in mind.

It is vital that when cases are selected as part of an audit programme the names and other details of these cases are marked to indicate the planned audit and details of the auditors who will conduct the audit including telephone number. If an auditor has not been selected yet to conduct this audit enter details of the audit unit. These notes should be updated at each stage e.g. when a date for audit is set or changed and in particular when an audit is completed a brief summary detailing should be the input.

6.6 Intimation to Traders

When the audit programme is drawn up for each quarter an advice is to be sent to each business selected for audit indicating that they will be the subject of a Customs audit and indicating the approximate timing of the audit. A more detailed letter will be issued when the time and date of the audit are finalized.

Chapter 7

Preparing the Audit

7.1 Preparation

Good preparation is essential in enabling Auditors to gain an understanding of the company to be audited and to identify the main areas of risk. The first audit of any company will take longer to prepare as it is necessary to research and profile the trader. Having selected a company for audit the first stage is to assemble a profile of the business. The initial questions are:

- What is the business or trade of this organisation?
- What is the scale of the business? e.g. what is the exposure for duty?
- What duty is paid?
- Who are the principals of the business?
- What are the major (both in volume and value) imports and/or exports of the business? i.e. what commodity codes does the trader deal in?
- What are the major countries of origin/destination for imports/exports?
- What Customs or control regimes are involved?
- What is the Revenue history of the business? e.g. compliance record.
- Was the trader audited/investigated before by Customs? If so, what were the results?
- Was the trader audited by another department of Federal Board of Revenue recently? If so, what was the outcome?

For most businesses all of the above information is readily available. Information regarding the nature, principals and Revenue record of the business shall be available on TPR. Results of previous Customs investigations may also be available in some cases, and information regarding traffic flows will be obtained by using the data of HDS.

7.2 Case Profile

The audit unit will usually have prepared a case profile on each of the selected traders to which the information outlined above must be added. The HDS should be accessed for any additional information required in order to complete the file. All this information, when examined critically will give the Auditor a sound basis for assessing the risks associated with the business and indicating the key areas to audit.

The PRAL data in the current scenario and the HDS in the prospective scenario shall be used to develop various business reports which shall be used by the audit teams. Some of these reports may cover areas like:

- The “Trader” group of reports which will have abundant information In relation to a specific trader.
- The “Warehouse” group of reports will provide the user with a list of GDs for a particular warehouse, for a specific trader.
- The “Control Indicator” report, part of the “Import/Export” group will provide a list of GD for a particular trader where specific control indicator(s) were set. An explanation for control indicators is available at Appendix 1. These listings will help provide invaluable information in relation to GD where certain procedures/exemptions were claimed, or certain freight terms were input. This information will assist in highlighting possible risk areas of which the Auditor should be aware.
- The “Preference” group of reports will highlight GD for a particular trader for a specific period, location, origin and preference code input at the time of import. These reports will again assist

in identifying risk areas for the Auditor, e.g. suspension/preference rates always claimed at import. The output from these reports will assist with creating the Trader Profile Record.

- Information regarding Control regimes may be gathered from the relevant staff in each Collector's Office.

7.3 Trader Profile Record (TPR)

The information gathered above is formalised in a Trader Profile Record (Appendix-A). If this is the first audit of the business it will be necessary to open a new profile record. Otherwise open the existing TPR and update as necessary by reference to the HDS.

7.4 Risk Assessment

Having profiled the business in outline the next stage in preparation for an audit is to identify particular areas of risk associated with this business. Risk assessment is applied to the goods imported/exported and the risk inherent in the trader. Each of the sections of the TPR is to be examined with a view to determining the potential areas of risk involved. The risk analysis manual (in production) is to be used as a reference for this stage of the planning.

7.5 Types of Risks

Notwithstanding the work in progress on a risk analysis manual the following sets out examples of the checks which should be made to identify risks:

7.5.1 Tariff Classification

- Examine the codes for the major imports and exports of the business.
- Are these items subject to quota, import/export restrictions/prohibitions, end-use authorisations, etc.
- Are there similar items not subject to the above restrictions?
- Are there similar items attracting a significantly higher rate of duty?
- Is there any intelligence or record of substitution in this area?
- Has there been a variation in the Classification used that might correspond to the introduction of a new duty (e.g. Anti-dumping Duty – ADD)?
- Additional codes? Is the code attracting the lowest rate of duty continually being declared?

7.5.2 Origin

- Does the declared origin have a significant impact on the rate of duty paid - i.e. is there a preference claimed or are the goods subject to Anti Dumping Duty when coming from certain countries ? Check the tariff to ascertain rates of duty, Anti Dumping Duty, restriction, etc. applicable within a chapter or heading within same.
- Might an alternative origin make the goods subject to license or quota restrictions?
- Might the goods be alternatively sourced and re-packed/re-bagged en route? e.g. check airway bills available on record, if any, or if the imported goods are still available at the traders premises, examine the goods if possible, and check remaining airway bills, etc.

7.5.3 Valuation

- What are the terms of the invoices? Are these consistent?
- Are importer and supplier related? Is there any Valuation Ruling applicable on the goods?
- Does the value of similar goods vary greatly with different suppliers?
- Are the freight charges consistent with the weight/volume or the distances from the port of shipment to the port of delivery concerned?

7.5.4 Control Regimes (Exemptions/Concessions/Special Permissions)

Does the business hold:

- An Inward/Outward Processing, End-Use or Processing under Customs Control authorization.
- An import license.
- A warehousing authorization.
- What are the risks associated with any such regime - e.g. undeclared diversions? Misuse of control regimes? Licenses /authorizations out of date, not applicable? Volumes and/or value of imports exceeding those authorised.

The above is merely an introductory list and should not in any way be regarded as a substitute for the risk analysis manual.

7.6 Audit Preparation Memorandum (APM)

The APM (Appendix-B) outlines the plan of action for a particular audit. This will be used by the Auditor to lay out the key areas of enquiry following the risk assessment. The APM will indicate the period of audit, the risk factors identified, and the data prepared for statistical checking as well as any other relevant information.

7.7 Period of Audit

In order to facilitate the presentation of books and documents by the trader and to focus the audit, a period for audit should be chosen. Use of the HDS reporting mechanism will indicate the seasonal variations in trade by identifying the volumes of imports month by month. A period of three, six or twelve months should be chosen as the focus of the audit. Any time based risk factors, such as the temporary imposition of duties or controls, or changes in company management, should be taken into account when choosing the audit period. It should be noted that while the focus of an audit will be within the selected period, any mis-declarations outside of this period which come to light in the course of an audit should be examined.

7.8 Statistical Checking

Prior to the selection of specific GDs for checking, the preparation of an audit should include the use of the "Audit Reports" facility on the HDS to provide statistical data regarding overall volumes and values of particular goods imported during the audit period. The Reports on the HDS, as outlined above, and in particular, "Trader Details by Commodity Code and All Collections", should be run in preparation for each audit to determine the values and commodities involved for the audit period for the Auditor. These statistics should be tested against the turnover indicated in the company accounts as a credibility test.

7.9 Selection of Representative GDs for Transaction Checking

A selection of GDs, covering all aspects of the trader's activity must be chosen for comparison with supporting documentation and trader's records. The selection of GDs for this check must include a representative sampling of all of the risk factors identified and should reflect the diversity of the business being audited. Care should be taken during this process as limited time and resources can be easily dissipated by an inability to cope with the mass of paper produced.

7.10 Trader Notification

The trader is to be informed in writing (use Template. see Appendix-C), not less than ten working days in advance of the date of commencement of the audit. It may be convenient to agree this date by phone before the issue of this letter. The letter should be addressed to the relevant person in the company e.g. Company Secretary, Financial Director, Partner etc. or in the case of a sole trader the proprietor.

The letter will detail the following:

- Proposed period to be audited,
- Proposed date and duration of audit,
- Names of personnel who will carry out the audit,
- Assurance of confidentiality,
- A list of Paperless declaration numbers and dates together with the relevant customs clearance agents names in order that the trader can have the supporting documents available on arrival of the Auditors,
- List of other records required to be examined.

Chapter 8

Audit Preliminaries

8.1 The Audit

The audit of each business will present a different set of challenges to the Auditor. No two companies will have identical accounting systems, stock management or processing and no two companies will present the same risks to Customs.

8.2 Check list for Audits

PCA audit teams will conduct the audits against standardized check lists prepared before commencement of assigned audits.

A standard check list for audit is prescribed hereunder:

- i. Checking of HDS for past contraventions and compliance history;
- ii. Duty/tax payment profiles;
- iii. Trader Profile Record (TPR);
- iv. Website of business, if available;
- v. Consultation with I&P Division for any prosecution history;
- vi. Past audit reports, if any.

This checklist is general in nature. The Director (CO) will resort to develop and circulate model checklists for specific industries and traders on the basis of feedback received from Regional Directorates of PCA.

8.3 Procedure on Refusal of Access

As the date of audit has been notified in advance to the trader and in general agreed by phone, cases of refusal to allow Auditors access to the premises are not considered likely. Where such refusal does occur Auditors are to:

- Attempt to contact the person with whom the appointment for the audit was made.
- Explain clearly Customs legal entitlement to enter and request the trader's co-operation.
- Ask for a specific reason for the refusal to co-operate and attempt to resolve any issues that arose.
- If the obstruction persists Auditors are to withdraw and make a report without delay to their Deputy/Assistant Director, incharge of audit team. If the matter cannot be resolved locally the Deputy/Assistant Director, incharge of audit team will refer it to the Investigation & Prosecution Division of PCA.

8.4 Recording the Audit

It is essential that all audit work is thoroughly recorded. An audit diary should be maintained and the audit team should prepare most of the questions before each visit and record the responses in the audit diary. Moreover, the extracts of records examined may also be noted down. Notes taken throughout the audit should be adequate to allow a comprehensive report to be compiled clearly showing the steps taken during the audit. Audit staff should obtain sufficient relevant and reliable evidence to form a sound basis for conclusion. These notes will form part of the audit file and could be used in Court Proceedings at a later date which exclude hearsay evidence.

8.5 Dealing with Fraud

Where evidence of deliberate fraud or other major irregularity exists the auditors shall bring such evidence into the knowledge of their incharge without delay. After due scrutiny of the facts, circumstances, quantum and nature of offence, an officer not below the rank of an Additional Director

may refer the matter to the Investigation & Prosecution Division (I&P) of PCA. The responsibility for further action shall rest with the I&P Division, although the PCA Unit may be asked to assist them periodically. Definitions of “fraud and error” as provided in sections 32A and 32(3) respectively should be considered to distinguish between the two.

8.6 Procedure for arrival at the Trader’s Premises

On arrival at the trader’s premises the Auditor should:

- Introduce and identify themselves to the relevant personnel;
- Explain the broad method of the audit (a combination of systems and statistical checking and limited transaction checking i.e. make enquiries, inspect the business premises and books, carry out specific tests on the trader’s records to verify their accuracy.);
- Refer to the estimated duration of the Audit as indicated on the advice letter. Note that this is only an estimate and is subject to the ease of access to all relevant records;
- Request that an official from the company be made available at all times to answer any questions which may arise; and
- Verify that the trader is in possession of all the supporting documents requested in the letter of notification.

If the requested documents are not available it may be necessary to suspend the audit pending production of same. The trader should be asked for an explanation of the facts and reminded of his/her statutory obligations to co-operate with audit. A re-scheduled audit, when full documentation is available, should be agreed.

Chapter 9

Audit Procedures

A) Procedure for Work Order Based (Entity Based) Audits

9.1 Audit Checks

The following steps indicate the general model of how an audit will be conducted. Specific provisions for controlled traders are set out in this chapter.

In summary the technique applied is to firstly gain an understanding of both the physical and accounting processes of the trader's business through familiarization "walk-through" and then to perform a series of increasingly specific tests on the records against the declarations made to Customs. The series of tests outlined at stages 3 and 4 will, if completed successfully, provide a clear picture of the trader's compliance with Customs requirements.

Where mis-declarations are detected these are to be brought to the trader's attention and every attempt is to be made to reach an agreed resolution to the underlying problems which gave rise to the mis-declaration. The objective is to ensure that the pattern of mis-declaration does not recur rather than to simply censure the trader.

At the conclusion of audit the auditor/appraiser shall prepare the findings in writing duly signed by the preparer. The report shall then be submitted to the senior auditor or principal appraiser for review who shall either refer it back to the preparer for answering the queries of the reviewer or in case of no queries it shall be duly signed by the reviewer. The report shall then be sent to Deputy/assistant Director Incharge Audit Team for final approval.

The preparer, reviewer or approver of audit report may at any stage before the final approval refer the report to the cost & management accountant/chartered accountant of PCA for guidance on any aspects of technical nature.

9.2 Stage 1 – Physical walk-through

The purpose of this exercise is for the Auditor to become familiar with the mechanics of the traders operations. Follow the "life-cycle" of goods from arrival through storage/warehousing, production/processing to eventual disposal. The Auditor should visit the various parts of the trader's premises and note the storage and handling procedures. While at this stage the focus is on the physical handling of goods, note the control documents that exist at each stage of the cycle - i.e. goods inward note/delivery docket, production schedules etc. Also note if representative goods similar or identical to those under audit are in stock in the warehouse/storage areas.

Physical examination of representative stock

Where feasible no audit should be completed without a physical examination. While it is accepted that the goods relating to the audit period will in many cases be consumed or otherwise disposed off prior to Audit, stock on hands may provide a useful source of information regarding Classification and/or Origin where it is apparent from record that there has been no recent change in ordering patterns. Where samples of goods are taken for analysis or to verify classification a receipt must be issued to the trader.

Origin Checks

Product markings may identify country of origin as would Bar Codes if these are displayed. The first two/three digits of a bar code indicate the origin of the numbering organisation that issued the number which may indicate the country of origin of the product. This could prove to be of assistance with proving origin as products supposedly originating in China and dispatched directly to Pakistan should not have an origin bar code of anything other than China or Pakistan.

9.3 Stage 2 - Documentary walk-through

This phase is used to become familiar with documentary control systems the trader uses to control the ordering, shipping, receipting, payment, production and disposal of goods. Again the method is one of following a documentary "life-cycle" which should begin at the point where stock control indicates the need to order goods and follow through the documents controlling each stage of the cycle. Particular attention should be paid to the Purchase Orders, Invoicing, Goods Inward and Payment accounts as these will form the basis of the next stage checks.

Review of Business Life-cycle through Flowcharts etc.:

A flowchart is "a graphical representation of the steps in a given business process". Many companies use flowcharts to demonstrate their procedures. The charts are generally a step by step easy to follow diagram of the companies' practices. Samples of universal symbols used on flowcharts are at Appendix-D.

At the end of stages 1 & 2 the Auditor should confirm his/her understanding of the trader's systems by recapping on his/her notes with an official of the company and clearing up any misunderstandings in how the systems operate.

9.4 Stage 3 - Statistical Checking

Volumes

This test will assist in ascertaining the level of compliance of the trader. During the preparation phase the Auditor will have retrieved statistical data from the HDS regarding the values and volumes of specific commodities imported/exported during the audit period. It should now be possible to verify these values and volumes against the trader's records.

The Goods Inwards control records should show a volume equivalent to that identified by HDS reports. If not, the trader should be asked to explain the differences. It may be, for example, that certain commodities are obtained alternatively from Free Circulation sources. If commodities are coming from a variety of sources it will be necessary to examine the invoicing and/or payment's records to reconcile the records with the HDS figures.

During this phase of checking, the descriptions of goods shown in the stock control and ordering systems should be examined carefully. Do these descriptions match up to the classifications shown on the declarations? If the goods are subject to an import authorization / quota then the total volume of imports should be checked against such restrictions.

Values

A selection of the traders Payments Records to suppliers during the audit period should be examined next to confirm the overall value of the imports of selected commodities. Specific attention should be paid to payments made to suppliers which can not be readily related to import transaction invoices (i.e. the beneficiary of the payment does not appear as the supplier of goods in the GDs). If such payments exist the trader should be asked to explain these. The Auditor should be alert to the possibility of additional payments being made to suppliers, relating perhaps to royalties, assists, or Research and Development costs which were not included in the transaction value. This is particularly

relevant where a relationship exists between supplier and importer. In cases where doubt or difficulty arises the Auditor should contact the Valuation Department through incharge Deputy/Assistant Director PCA.

Similarly Auditors should note payments made to shipping companies/carriers, and check that these are reflected in the overall values declared at import, i.e. that all charges relating to carriage, insurance and freight have been properly declared.

Results of Statistical Checking

If satisfactory results are obtained from statistical checking the Auditor has a confident indication of a generally healthy pattern of compliance. The next stages, which involve checking the transactions indicated on particular GDs, may be reduced to small representative sampling if the stage 3 results are positive. The results of statistical checking should be discussed in detail with the trader if discrepancies exist.

9.5 Stage 4 - Selected Transaction Checking

There are three elements in this transaction based checking:

- i. Validation of selected GDs against supporting documents.
- ii. Checking of specific selected GDs against book entries.
- iii. Checking of specific selected book entries against GDs/HDS.

With each of these checks only sample (say 30) transactions (GDs) need be checked if the results are satisfactory. As described in, the GDs to be checked should be carefully selected to reflect the diversity of the business under audit and to represent any particular Revenue risks identified GDs against Supporting Documents. This check is to verify that the GDs declaration conforms to the supporting documents presented. Details to be checked include:

- Comparing the values and currencies on the invoices with those declared on the GDs,
- Comparing the description of the goods on supporting documents to the classification declared on the GDs,
- Comparing origins on supporting documents to those declared on the GDs. Check that the correct specimen Custom stamps appear on relevant documentation. Check that the goods have been transported directly from the stated country of origin (i.e. through Bill of Lading). Where goods have transited en-route that adequate documentation for such re-routing (and non-manipulation en-route) is available.
- Regarding exports check that the trader is aware of relevant origin rules and complies with same.
- Are the goods subject to quota/license, import/export restrictions, end-use authorisation, etc. and if so the appropriate document has been duly endorsed with reference to the declaration? (Note that the original document must be available for audit).

Important Note:

The above is not an exhaustive list.

9.6 Checking of Specific Selected GDs against Book Entries

This test will confirm that the information declared on the GDs supported by the accompanying documents concurs with the trader's accounts. The Auditor will select a few GDs to be traced through the accounting system i.e.

- GD
- Order book
- Purchase book
- Delivery book
- Payment record confirming uniformity.

9.7 Checking of Specific Selected Book Entries against GDs

This test will further substantiate the trader's compliance. The Auditor should isolate a number of transactions from the trader's records and work in reverse of the test outlined above i.e.

- Payment record
- Delivery book
- Purchase book
- Order book
- GDs.

It is possible that the transactions selected from the trader's records for this check will relate to GDs that are not part of the representative sample that the Auditor has on hands. In this event the Auditor should contact the audit unit with the necessary information to enable personnel there to access the Trader Reports on the HDS and produce the relevant GDs Nos. The information required by audit staff will be trader's NTN and/or STR No., commodity code/s, origin/s, period, and possibly, value. The audit unit staff can convey the information to the Auditor on the trader's premises by Fax or Phone and the Auditor can then finalise this aspect of the audit.

The results of the above tests should provide a comprehensive picture of the trader's compliance with Customs requirements. However, if doubts exist a physical check of goods on hands may prove useful.

9.8 Discrepancies & Errors relating to Duty

If discrepancies have been identified the trader should be advised at this stage that errors have been found and that the audit team may be present for longer than indicated originally or may have to reconvene at a later date. This may arise particularly where it is necessary to retrieve additional papers to determine the extent of the error.

9.9 Identifying the Extent of Problem

Where, in the course of any of the above checks, the Auditor identifies an error or mis-declaration the first step is to determine the extent of the issue. Firstly it is necessary to identify if the error is consistent throughout the audit period. This is achieved by examining representative transactions throughout the period. If the error is consistent it may then prove necessary to extend the examination of accounts beyond the audit period. The Auditor should randomly select and examine transactions for identical periods either side of that being audited. If no additional errors are discovered it can be reasonably assumed that the trader's records are satisfactory. If the error recurs it is necessary to continue sampling until a clear picture of the scale of the mis-declaration emerges.

9.10 Extending the Audit in certain Cases

In case additional errors are discovered in the periods outside the original audit period that influence the duty paid, the scope of audit would be extended. The entire period that is not time-barred would be covered for determining the extent of any recoveries of duties and taxes. Both the trader and the Audit Management Unit would be duly informed of the extension along with revised timelines for completing the audit.

9.11 Extrapolations

Where the Auditor is satisfied that the errors discovered are consistent throughout a stable trading period, it may be possible, following agreement with the trader, to extrapolate the amount due for the entire period where the errors occur. It may be noted that this methodology varies from the usual practice of actual examination of each GD/supportive document and basing the calculations on the actual amounts verified from such documents individually. However, in case of a straightforward and consistent error, the use of such methodology saves the time and effort for both the parties.

The trader may be requested to prepare a schedule of the liabilities, within an agreed time scale, which the auditor will verify. The process of reaching such conclusions must be carefully documented. This may be used at a later date to justify the action taken in a Court of law. The report should show that the over/under declarations were consistent in samples examined and that the import statistics obtained from the HDS accord with the trader's records. Any change in duty rates during the period of the mis-declaration must also be taken into account. The conclusions regarding over/underpayments will be discussed at the end of audit meeting and subsequently confirmed in the written report to Trader.

9.12 Over and Under Payments

Where errors in relation to over and under payments occur in the audit period the Auditor will have to have exact calculations for both. It will be necessary to verify whether both these types of errors are consistent and whether they extend beyond the period in question. As outlined above, the Auditor will have to select transactions from identical audit periods either side of the audit period to establish this. Again if no additional errors are discovered it can be reasonably assumed that the trader's records are satisfactory.

Where the errors are not consistent and/or unique to the audit period and there is no agreement for extrapolation with the trader, the Auditor will have to identify and calculate the exact amount of both underpayments and overpayments at transaction level, where possible. In certain circumstances following agreement with the trader it may be possible for the trader to prepare a schedule of the outstanding amounts for the auditor to verify.

In such instances the audit will be suspended and reconvened when the trader has completed his calculations. Auditors should be mindful in these situations when agreeing time limits for the completion of the schedule of the three year deadline for the recoveries. It may also be necessary in other circumstances to reconvene the audit at a later date or refer the case to the in-charge audit team as it may not be possible to determine the exact liability on the trader's premises. Where overpayments have been fully determined during the course of an audit the trader is to be advised that a refund can be applied for, subject to the conditions laid down in the Customs Act, especially with reference to Sections 19-A and 33.

Where a pattern of overpayments has been identified the Auditor should compile sufficient information to detail the extent and range of these to present to the trader at the end of audit meeting. In the case of underpayments the Auditor should identify and calculate the exact amount of the liability at transaction level. Where a large number of entries are involved the Auditor should attempt to use a process of extrapolation.

The discrepancies highlighted will be presented to the trader at the end of audit meeting together with the total duty breakdown. In the situation where overpayments are also involved, the Auditor must show the detail of such amounts separately on the computation sheet for presentation to the trader at the end of audit meeting.

Where the overpayment is greater than the underpayment the Auditor will again enter all amounts on the computation sheet for presentation to the trader at the end of audit meeting. In all cases of overpayments identified during an audit the Auditor must verify that no refund was previously paid by reference to the HDS.

9.13 Other Discrepancies

A record where errors are detected in duty payments outside of the Customs ambit must be kept in order to notify the relevant regions or Collectorates, as described later in the manual.

Where infringements in relation to statistical requirements are discovered during an audit, the Auditor must keep a record for reporting it on completion of the audit. Where violations of import/export restrictions, prohibitions, surveillance or any other non duty infringements are discovered in the course of an audit, the Auditor again must determine the extent of the issue, and whether these discrepancies are unique to this period. In order to establish this, the Auditor should randomly select and examine transactions for the periods either side of that being audited. If no additional errors are discovered it can again be reasonably assumed that the traders' records are satisfactory. The discrepancies highlighted will be presented to the trader at the end of audit meeting. The Auditor must keep general details in relation to the discrepancies in order to notify the relevant departments, as described later in the manual.

9.14 Verification

Certificates of Origin

Where following a physical examination doubts still exist regarding Origin it may be necessary to obtain Origin Certificates for verification. Where these or any other documents are removed a receipt should be given to the trader. The verification of Origin Certificates is to be conducted at the level of the officer in charge of the Audit team.

Samples for Classification

Similarly where physical examination does not confirm the classification of the goods a sample may be taken and forwarded to the Customs laboratory or any other accredited laboratory for testing.

9.15 Audits of Controlled Traders

The procedures set down above for non-controlled traders should apply together with verification of the following:

- That only approved traders are availing of procedures with an economic impact (Survey based exemptions, DTRE etc.);
- That the correct authorisations are in place e.g. Survey Certificate/ End-Use Authorisation, and that the goods concerned are covered and dealt with under that particular control regime;
- That the bond is adequate. If doubt exists as to the adequacy the matter is to be referred to the appropriate officer who will be responsible for any necessary follow up action;
- Processing operations are as approved and carried out only in designated locations;
- Quantities and values imported/exported do not exceed the amounts specified on the authorization;
- Re-exportation time limits are complied with;
- Rate of yield (i.e. Input/Output co-efficient, wastages etc.) is as declared;
- The volume of diversions/ local sales is as declared; and
- Only approved traders are availing of simplified procedures (such as ACP) and transfer arrangements. Request details of their Monthly/Quarterly/Annual Balanced Statements (if not already to hand from Admin. staff) etc. Where errors are discovered in endorsement or keeping of records unique to a controlled trader these should be discussed with the trader at the end of audit meeting.

B) Procedure for Desk Audits

Apart from work order based detailed/investigative audits, PCA auditors shall also conduct desk audit or transaction based audits with the permission of Director General PCA on the basis of specific information or commodity wise duty collection trends. The following procedure shall be followed for desk audit/transaction based audits:

- i. Customs electronic data and Customs record maintained by the concerned Collectorates shall be consulted for audit purposes;
- ii. Valuation Rulings issued by Directorate General of Customs Valuation shall be consulted to conduct audits relating to under-invoicing/under-valuation;
- iii. Information regarding L/Cs, shipping documents, etc. shall be obtained from third parties in writing;
- iv. In case of detection of evasion of government revenue or non-compliance of customs/trade regulations, the draft audit observation shall be approved by Deputy/Assistant Director incharge audit team;
- v. In case of approval of draft audit observation, the concerned Director shall seek permission from Director General PCA to issue audit observation;
- vi. At least 14 days time shall be given to the trader to respond to the audit observation in writing or through personal hearing;
- vii. In case of non receipt of reply of audit observation or non satisfactory defence of the audit observation by the concerned trader, a contravention report shall be issued to the concerned adjudicating officer.

9.16 Audit Working Papers

Work papers serve both as tools to aid the auditor in performing his work, and as written evidence of the work done to support the auditor's report. Working papers ordinarily include the following:

- Information concerning the legal and organizational structure of the entity.
- Information concerning the industry, legal environment within which the entity operates.
- Analyses of business transactions.
- Analyses of input-output ratios.
- Copies of GDs, returns, duty/tax payment proofs.
- Record of nature of audit procedures performed.
- Copies of communication with experts and other third parties.
- Cross verification reports.
- Copies of L/Cs and bank retired documents.
- Letters of representation received from the entity.
- Conclusions reached by the auditor.
- Details of discussion about audit findings with the entity and Audit management of the PCA Directorate.

Information included in work papers should be sufficient, competent, relevant, and useful relating to work papers. The terms are defined as follows:

- **Sufficient information** means that the information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor.
- **Competent** means the information is reliable and the best attainable through the use of appropriate audit techniques.
- **Relevant** means the information supports the audit findings and recommendations and is consistent with the objectives of audit.

- **Useful** means the information helps the organization meet its goals.
All the audit findings should be documented clearly in the work papers. All the audit findings should be documented immediately as soon as the audit is completed.

9.17 Working Papers Forms

The auditors would compress into writing the audit reports only in the forms and templates prescribe in this manual.

Chapter 10

Review of Work Order Based Audits

10.1 Review of Audit Findings

Having concluded the examination of the trader's records the Auditor should now summarize the findings to date. In so doing he/she must consider all aspects of the audit including the inspection of the premises and review all the working papers, GDs, trader's schedule of liabilities, etc. in preparation for the audit report to the trader.

In all cases, the auditor would discuss the audit findings with the officer in-charge of the Post-Clearance Audit division for finalization. It is expected that in some cases, the Officer-in-charge may assign some additional work involving verification, scrutiny or checking to be done before the finalization of the audit findings.

10.2 Planning the End of Audit Meeting

The final stage of the audit on the trader's premises is to convene a meeting with senior officials of the company and present the audit findings. In particular where significant mis-declarations or underpayments have occurred it is important that senior company personnel, Managing Director or Secretary are present in this meeting.

10.3 Preparation for Meeting

The Auditor should review his/her notes, working papers, GDs etc. in regard to each part of the audit in order to present the findings to the trader. Where the trader has prepared a schedule of recovery which has been verified by the auditor the details of this must be incorporated into the computation sheet for presentation to the trader. Where underpayments have been identified the Auditor should prepare a computation of the underpayment for presentation to the trader (copy of same to be retained for the audit file).

A sample computation sheet is shown at Appendix-E (Copies of this sheet may be printed using the Template).

Where a pattern of overpayment exists the trader is to be apprised of this, given what details are available regarding the extent of the problem and advised to seek refunds at the appropriate Customs station. Where underpayments and overpayments have been identified the Auditor should prepare a computation of both for presentation to the trader (copy of same to be retained for the audit file).

Where errors or deficiencies in procedures have been identified the Auditor should have sufficient details of same to present to the trader and be prepared to make recommendations for changes. If the Auditor has identified infringements in relation to statistical requirements details of same must be prepared for presentation to the trader. Where violations in relation to import/export restrictions have been identified details must be prepared for presentation to the trader.

10.4 Conducting the End of Audit Meeting

The trader should be made aware of the fact that,

- This meeting is to convey the results of the audit to the trader, which will be followed by a written report,
- These results only apply to the period audited,
- They may be liable to audit again in the future. The Auditor will present a summary of the audit findings to company officials. Any mis-declaration patterns will be brought to attention and the necessary action to avoid repetition of these should be discussed.

During discussions on the cause of problems, Auditors should take care not to be drawn into making judgmental comments on third parties such as agents or carriers. The Auditor should also outline where appropriate the action, if any, that will be taken by Customs following the audit. For example, it may be necessary to advise a trader that a report will issue regarding breaches of licensing provisions, e.g. import/export restrictions, etc.

The Auditor should make clear that this presentation of findings will be followed up by a written report confirming the points raised. Details of both overpayments and underpayments should be discussed. Where a pattern of overpayment exists the trader is to be apprised of this, given what details are available regarding the extent of the problem and advised to seek refund at the appropriate Customs station.

Where underpayments have been discovered the Auditor must present a computation of the same to the trader at this point. The basis of this must be explained in detail to the trader. The trader is to be advised that a written demand for payment will issue promptly and that he/she will have 10 days from the date of the demand to pay the amounts due. In all cases where a net liability is determined the trader must be informed that surcharge will accrue at the rate laid down under section 202A on all amounts not paid by the due date. The trader is to be further advised that in case he does not agree to the findings of audit, he has the option to lodge an appeal for review or to contest these at the adjudication forum.

Where overpayments and underpayments have been identified resulting in a refund the Auditor must present a computation of both to the trader. The basis of this must be explained in detail to the trader and the trader be informed that a refund will be issued by the relevant Collectorate subject to filing of a refund claim by the trader and verification that no refunds have been paid and/or claimed in relation to the period audited and the conditions laid down in the Customs Act, particularly Sections 19A & 33.

Chapter 11

Follow Up Action

11.1 Post Audit Procedures

The proper implementation of post audit procedures ensures that:

- The audit tests and results are correctly recorded.
- The audit results are fully evaluated.
- The trader's rights are fully respected.
- Anomalies and/or deficiencies in audit procedures are addressed.

The follow up action to an audit consists of:

- 1) Enter details of liabilities identified in the taxpayer accounts. A standard format for this record will appear in the automated system.
- 2) In all cases of overpayments, compensating or otherwise, verify that no refund claims were previously paid for the period audited.
- 3) Issue Trader's Audit Report summarising the results of audit. Where a liability exists this report is to be issued at the earliest possible time following completion of the audit and will include a demand for payment of the outstanding liabilities within 10 days.
- 4) Forward any samples or documents to relevant authorities.
- 5) Where the trader is to submit refund claims following further examination of his/her accounts, advise the relevant import station of the trader, period and nature of the expected refund claim.
- 6) Complete Audit Report.
- 7) Update Trader Profile Record.
- 8) Forward reports to adjudicating officers and other relevant areas like AMU, I&P Division, etc.

11.2 Written Report to Trader

This report is to be completed at the conclusion of every audit. The purpose of this report is to formalise the end of audit meeting discussions with the trader. This report will detail the Auditor(s), the audit period, the dates of the audit and:

- In the case of compliant traders - indicate that for the period audited no discrepancies were identified.
- In the case of deficiencies in the traders' controls - highlight these and detail recommendations for improvement to place the trader on a compliant footing.
- Where a report is to be forwarded to another department i.e. regarding import/export restrictions, surveillance, authorisations, licenses, etc. describe the action to be taken.
- In the case of underpayments being identified and collected at the final meeting - set out the computation of same and thank the trader for payment.
- In the case of underpayments being identified and not settled at the final meeting set out the computation of the same and demand payment reminding the trader of the final date for payment i.e. 10 days from the date of this letter.
- In the case of a pattern of overpayments being identified - set out the process of application for refund to the trader.
- In the case where overpayments are fully identified - set out the computation and indicate that a refund will issue.
- In the case of underpayments and overpayments resulting in a net underpayment collected at the final meeting - set out the computation of both indicating the net amount and thank the trader for payment.

A record of all activities relating to an audit must be recorded on the audit file. The audit file must contain a copy of all documentation relating to an audit, and also a record of all activities.

Where the recoverable amount is still not paid by the due date a contravention report shall be forwarded to adjudicating officer, a copy of which must be filed with the audit file.

11.3 Audit Report

This report must be completed at the end of every audit. It will detail the result of the audit and allow for the Auditor to record any comments which may be of assistance in future audits. The box for “agents” should be completed with the names of the main Customs Clearance agents involved in any audit where errors are discovered. In all cases where underpayments were discovered this report should only be forwarded to the A.M.U. when either the money has been brought to account or the file has been forwarded to the AMU.

11.4 Updating the Trader Profile Record (TPR)

The TPR is to be updated at the conclusion of every audit. The period audited, date of audit, name(s) of the Auditor(s), audit results and comments should be entered. Also, if necessary a risk note can be added in relation to the company, if the Auditor feels the trader should be reviewed earlier than would normally be expected.

11.5 Deficiencies in Audit Procedures

It is envisaged that Auditors will occasionally discover deficiencies or inadequacies in existing procedures or guidelines. Where this occurs Auditors are encouraged to submit these in a report to the A.M.U. through the regional Directors, together with recommendations for amendments.

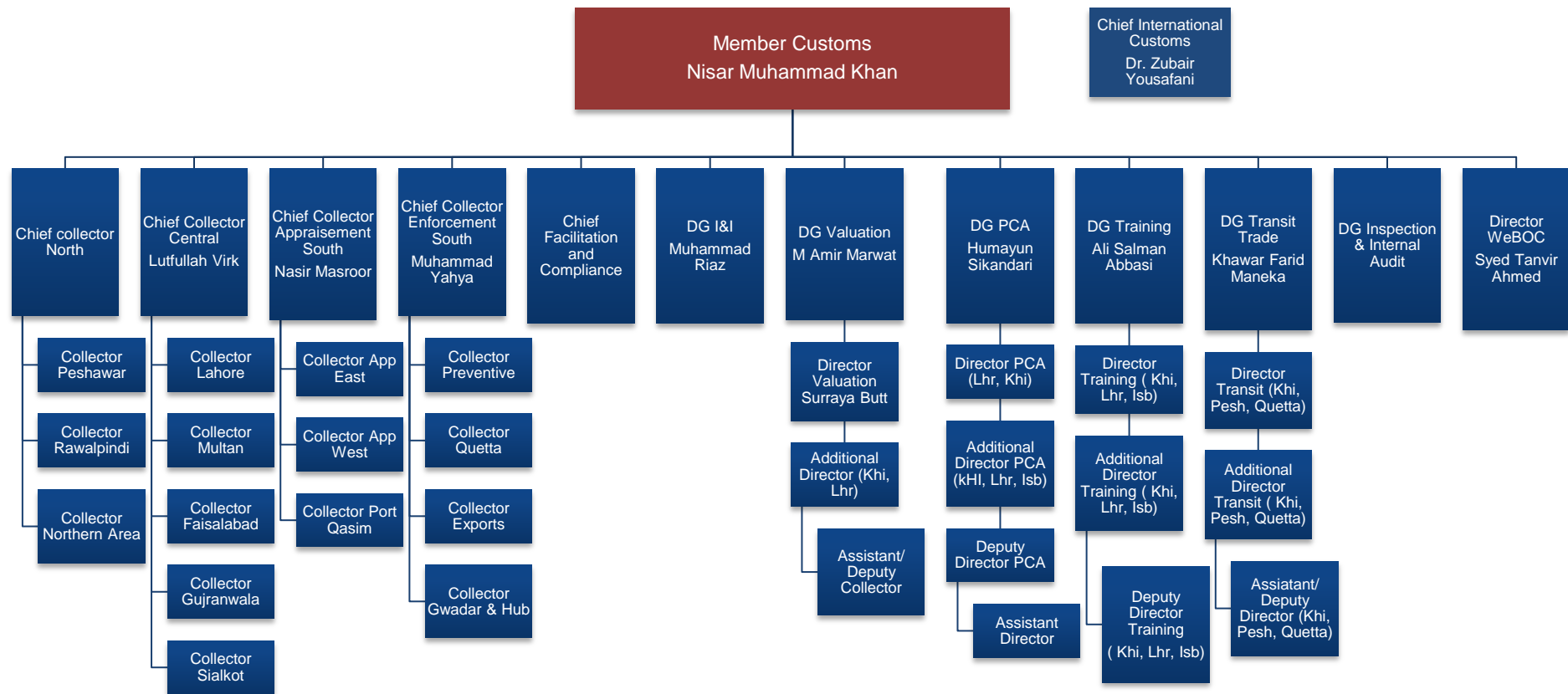
11.6 Quality review of PCA

Independent audit to undertake the quality review of PCA shall be done through independent audits by Directorate of Inspection or any reputed professional audit firms selected by FBR.

11.7 Periodical Reports

Audit teams shall submit monthly summarized reports to the Additional Director regarding audits initiated, completed, and detections made. A monthly consolidated report shall be submitted to the Director General of PCA by the concerned Director.

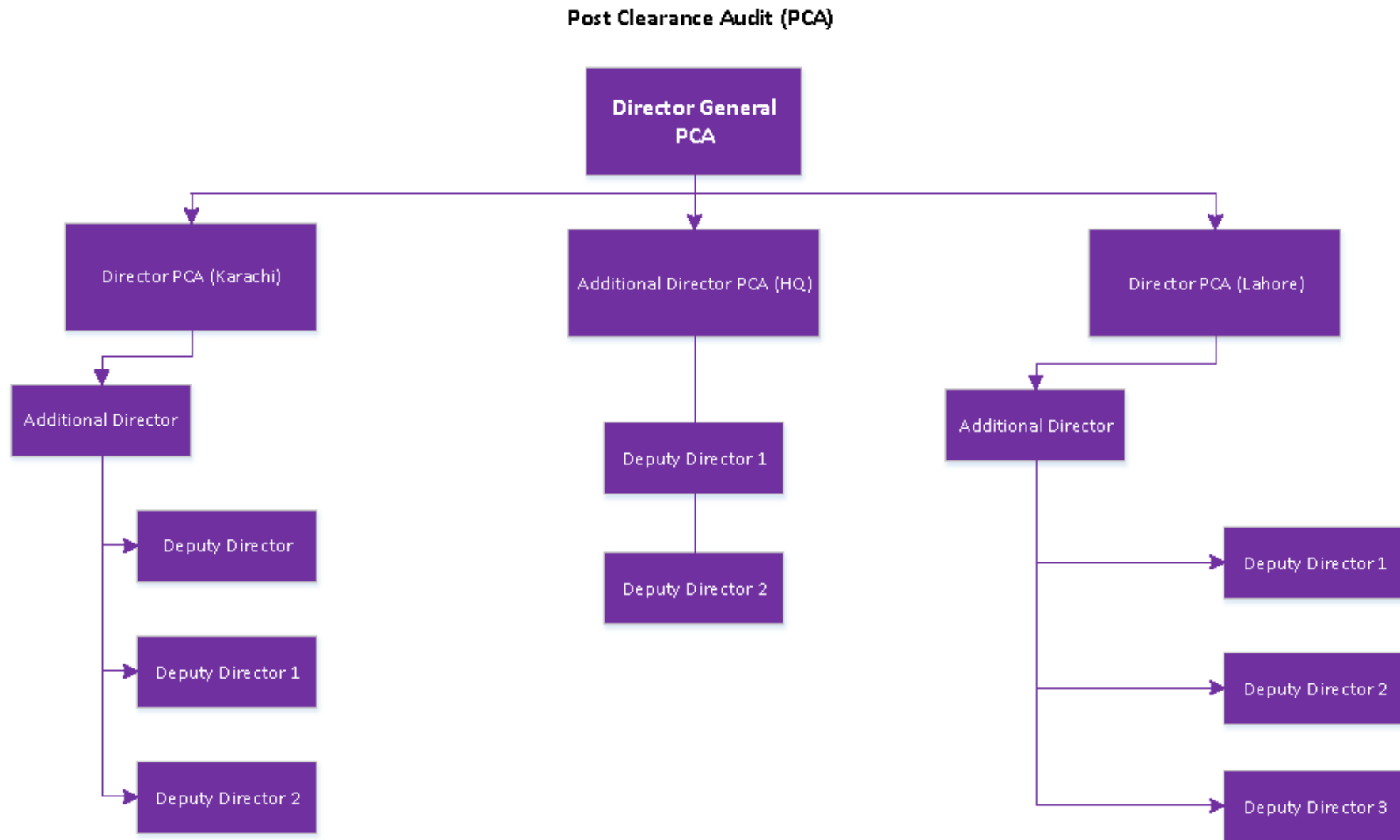
Annex D: Customs Organizational Chart



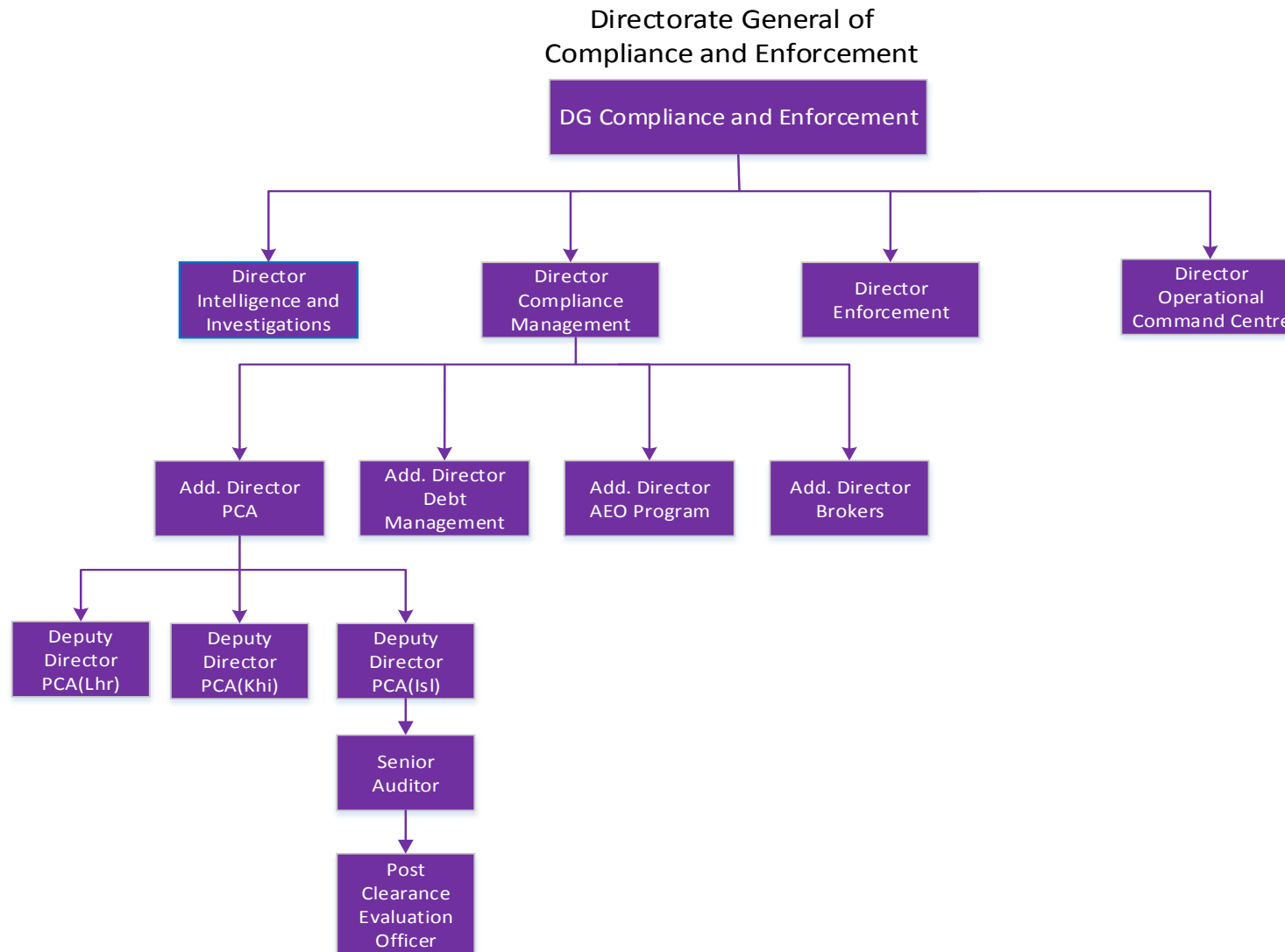
Semi Operational Pakistan Customs Directorates

- Directorate Risk Management
- Directorate IT Reforms
- Directorate Intellectual Property Rights
- Directorate Input Output Coefficient Organization

Annex E: Current PCA Organizational Chart



Annex F: PCA as part of Compliance and Enforcement Organizational Chart (Trade Project Recommendation)



Annex G: Data on Audit results for PCA – Supplied by the Director General
Summary of Detection of Tax Evasion by the Directorate General of Post Clearance Audit during 2012-13

(Rs in Million)

S.No.	Sector/Arrea Where Detection Made	July,2012		August,2012		Sep,2013		October,2012		Nov,2012		Dec,2012		January,2013		February,2013		March, 2013		April,2013		May,2013		June,2013		Grand Total
		PCA KHI	PCA LHR	PCA KHI	PCA LHR	PCA KHI	PCA LHR	PCA KHI	PCA LHR	PCA KHI	PCA LHR	PCA KHI	PCA LHR	PCA KHI	PCA LHR	PCA KHI	PCA LHR	PCA KHI	PCA LHR	PCA KHI	PCA LHR	PCA KHI	PCA LHR	PCA KHI	PCA LHR	
1	Misuse of Duty Free concessions (Duty Free Shops)																									
2	Undervaluation and Non application of Valuation Rulings															16.12	3.71		280.7	12.6	553					866.59
3	Misuse of Exemptions and SROs		5.77	37.74	0.137	0	0	19.5	0.76	41.1	0.1	11.52	3.46	20.15	235.8			2.5	5.41			7.08	2.566			393.5
4	Inadmissible Refund and Duty Drawback																									
5	Mis-declaration of description and tariff classification	34.77								3.1				6.32												44.19
6	FED Not Realized																									0
7	Evasion of Anti Dumping Duty																									
8	Other													1.861												1.861
Total		34.77	5.77	37.7	0.137	0	0	19.5	0.76	44	0.1	11.5	3.46	26.47	238	16.1	3.71	2.5	286	12.6	553	7.08	2.57	0	0	1306.1
Grand Total		40.54		37.877		0		20.24		44.27		14.98		264.083		19.83		288.65		566.018		9.65		0		1306.1
PCA Karachi Detections		212																								
PCA Lahore Detections		1094																								
PCA Lahore Recovery		13.99																								
PCA Karachi Recovery		1.35																								

Annex H: Head of Post Clearance Audit Unit – Pakistan, Proposed Job Description

Job Title	Post Clearance Audit – Audit Manager
Location / Position No	Post Clearance Audit – Islamabad, Karachi and Lahore
Classification	Customs Officer Level
Educational Level	Post Graduate University Degree in Accounting / Auditing. Membership of a recognized accounting body
Reports To	Director General, Post Clearance Audit
Purpose of the Job	
<p>The audit manager is responsible for ensuring the completion of the annual audit work plan and reporting to stakeholder on the results of the plan. Monitor the progress of individual audits to conclusion, the quality, manner and appropriateness of the work performed and the communication of progress updates and results to the stakeholders and the audit client.</p> <p>The role requires leadership, project management and technical skills sufficient to confirm that appropriate methodologies are followed and standards achieved, within an acceptable resource cost and timescale. The audit manager may also participant in key stages of some audits.</p> <p>It is the audit manager's responsibility to resource the audit with personnel possessing the most appropriate skill sets for each stage of the audit. This will sometimes require the use of resources outside the audit manager's own team (e.g. IT audit skills).</p>	
Key Tasks and Responsibilities	
<p>Manage a team of senior auditors, auditors and junior (trainee) auditors to ensure adherence to the mission statement and objectives set by the Director General. Ensure audits comply with the policy and procedures detailed in the quality audit manual.</p> <p>Responsible for the formulation of the annual audit plan, taking into account input from the intelligence area, operational areas, other internal and external stakeholders and the Director General, PCA. Align and review the plan in line with resources and the assessed skill set and qualifications of audit staff throughout the year.</p> <p>Mentor and oversee the training of audit staff in the conduct of a quality audit. Review audit planning for individual audits and attend entrance and exit audit meeting with the audit client and associated stakeholders.</p> <p>Participate in the quality review process of selected audits and take responsibility to solve any problems identified by the internal quality audit of cases and review procedures in line with recommendations.</p> <p>Review all finalized audit cases and approve finalization in line with the accepted quality audit approach. Review and sign off on recommended collection of identified revenue shortage and associate penalty assessments. Approve other sanctions or prosecution in line with FBR policy. Ensure audit documentation on the file is appropriate and adequate to address any possible appeal or dispute.</p> <p>Review submissions made by audit clients at all stages of the audit including submissions made during entrance and exit interviews and those disputing assessed revenue shortages, and recommended sanctions including penalties.</p> <p>Administer the FBR code of conduct for auditors and take action, where appropriate, to refer cases to internal affairs or law enforcement authorities for investigation</p>	

Selection Criteria	
1. Planning and Management "Ability to plan, manage and deliver results by"	<ul style="list-style-type: none"> • Prioritizing workloads and meeting deadlines • Contributing to work area planning • Focusing on achieving team goals
2. Leadership And Participation In Change "Demonstrated high standards of leadership and flexibility to"	<ul style="list-style-type: none"> • Build effective teams • Take a positive lead and show initiative • Take responsibility for self and group actions • Manage performance and development of staff • Support and contribute to implementing change • Support and identify improvements to processes and practices
3. Clients and Communication	<ul style="list-style-type: none"> • Build and maintain relationships with clients and

"Awareness of client needs and sound communication and interpersonal skills to"	<p>colleagues</p> <ul style="list-style-type: none"> • Deliver high quality client service • Resolve issues of conflict • Communicate in a clear and concise manner
4. Analysis and Judgement "Ability to analyse information from a range of sources and apply strategically to"	<ul style="list-style-type: none"> • Demonstrate innovative problem solving • Make decisions with accountability and exercise good judgement
5. Technical "Relevant technical knowledge (or ability to acquire knowledge) to"	<ul style="list-style-type: none"> • Achieve work area objectives • Apply relevant legislation, policy and guidelines • Apply a broad knowledge of Customs roles and responsibilities

Annex I: Post Clearance Senior Auditor – Pakistan, Proposed Job Description

Job Title	Post Clearance Audit - Senior Auditor
Location / Position No	Islamabad
Classification	Customs Officer Level
Educational Level	Post Graduate University Degree in Accounting / Auditing. Membership of a recognized accounting body
Reports To	Audit Manager
Purpose of the Job	
<p>This position requires a person to work as a team member responsible for post clearance audits of traders' records to ensure that high levels of compliance exist.</p> <p>The position holder will deal with the public and trade and will be a visitor to traders' premises on many occasions and therefore will be required to conduct themselves in a manner of the highest levels of professionalism and integrity.</p> <p>The audit manager will determine specific roles and responsibilities for each audit, but the senior auditor could be required to perform some or all of the following:</p> <ul style="list-style-type: none"> • Contribute to risk evaluation • Take the lead in scoping and planning sessions with internal stakeholders who refer the case • Take responsibility for progressing all aspects of the audit to Audit Standards • Provide progress updates to the audit manager • Produce a single report drawing together the work of auditors seconded from other areas for their skills • Draft letters to traders, summarizing findings and recommendations 	
Key Tasks and Responsibilities	
<p>Supervise a team of auditors performing a variety of risk-based audits under a Compliance Management philosophy</p> <p>Report to the Audit manager and complete the following tasks:</p> <ul style="list-style-type: none"> • Coordinate research to assist in the development of audit plans and programs • Evaluate audit activities undertaken by Audit operations • Develop and manage the PCA files and associated databases • Consult other Customs technical sections on audit findings (e.g. Tariff, Valuation and Enforcement sections) • Undertake and execute audit plans and programs • Produce reports and findings from targeted audit programs to the audit manager • Provide intelligence and relevant information on importers and agents for compilation • Provide performance reports on the audit team members including recommendations to improve skilling and development through training 	

Selection Criteria	
1. Planning and Management "Ability to plan, manage and deliver results by"	<ul style="list-style-type: none"> • Prioritizing workloads and meeting deadlines • Contributing to work area planning • Focusing on achieving team goals
2. Leadership and Participation in Change "Demonstrated high standards of leadership and flexibility to"	<ul style="list-style-type: none"> • Build effective teams • Take a positive lead and show initiative • Take responsibility for self and group actions • Manage performance and development of staff • Support and contribute to implementing change • Support and identify improvements to processes and practices
3. Clients And Communication "Awareness of client needs and sound communication and interpersonal skills to"	<ul style="list-style-type: none"> • Build and maintain relationships with clients and colleagues • Deliver high quality client service • Resolve issues of conflict • Communicate in a clear and concise manner
4. Analysis And Judgement "Ability to analyse information from a	<ul style="list-style-type: none"> • Demonstrate innovative problem solving • Make decisions with accountability and exercise good

range of sources and apply strategically to”	judgement
5. Technical “Relevant technical knowledge (or ability to acquire knowledge) to”	<ul style="list-style-type: none"> • Achieve work area objectives • Apply relevant legislation, policy, and guidelines • Apply a broad knowledge of Customs roles and responsibilities

Annex J: Post Clearance Evaluation Officer – Pakistan, Proposed Job Description

Job Title	Post Clearance Audit - Auditor
Location / Position No	Islamabad, Karachi and Lahore
Classification	Customs Officer Level
Educational Level	University Degree
Reports To	Senior Auditor
Purpose Of The Job	
<p>The audit manager will determine specific role and responsibilities for each audit, but the auditor could be required to perform some or all of the following:</p> <ul style="list-style-type: none"> • Contribute to the audit planning process • Support the establishment and recording of agreed set areas in the audit • Carry out the establishment and recording of agreed set areas in the audit • Walkthrough of a set area, and document in words and flowcharts an internal control area of the audit • Contribute to the risk evaluation and construction of a test strategy • Perform allocated tests • Write sections of the audit report • Contribute to the content of the findings letter 	
Key Tasks and Responsibilities	
<ul style="list-style-type: none"> • Under the direction of the senior auditor use a range of basic audit techniques on companies targeted for audit under the risk management program and in line with the audit plan • Accompany the senior Auditor on audits and take notes during the entrance and exit audit interviews • Monitor the audit working papers to ensure they are in line with the Quality Audit manual and are up to date • Assist with the initial research of Customs IT systems and working papers of proposed audit clients • Provide reports for the Audit Manager and Senior Auditor's assessment • Other duties as directed by the Audit Manager/ Senior Auditor 	

Selection Criteria	
1. Planning And Management "Ability to plan, manage and deliver results by"	<ul style="list-style-type: none"> • Prioritizing work load, and meet deadlines • Contributing to work area planning • Maintaining self-control and focus
2. Leadership And Participation In Change "Demonstrated high standards of leadership and flexibility to"	<ul style="list-style-type: none"> • Positively participate in teams • Show initiative and take responsibility for actions • Support change • Suggest improvements to processes and practices • Learn from experience and readily acquire new skills
3. Clients And Communication "Awareness of client needs and sound communication and interpersonal skills to"	<ul style="list-style-type: none"> • Deliver high quality client service • Resolve issues of conflict • Communicate in a clear and concise manner
4. Analysis And Judgement "Ability to analyse information from a range of sources and apply strategically to"	<ul style="list-style-type: none"> • Demonstrate problem solving skills • Solve problems • Make decisions with accountability and exercise good judgement
5. Technical "Relevant technical knowledge (or ability to acquire knowledge) to"	<ul style="list-style-type: none"> • Achieve work area objectives • Apply relevant legislation, policy, and guidelines • Apply a broad knowledge of Customs roles and responsibilities

Annex K: Blue Lane Selectivity

